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Memorandum

To : SAC PX 58C 41605 P [redacted] Date 1/11/90

From : SA [redacted]

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b7C

Subject : Allegations against Senators, Alan Cranston, et al
CSPO
OO: PX

It's recommended that Sub B^G be open for newspaper articles.

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58C-PX-41605 Sub B-1

SEARCHED INDEXED
SERIALIZED FILED
JUN 1990

[redacted]

FD-350 (Rev. 5-8-81).

(Indicate page, name of newspaper, city and state.)

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Keating wins delay for House appearance

Star witness **Charles Keating Jr.** won a two-week delay Monday from testifying before a House committee probing the $2 billion failure of **Lincoln Savings and Loan of Irvine, Calif.**

Keating ran Lincoln until it was seized by the government in April. House Banking Committee Chairman **Henry Gonzalez**, D-Texas, has shaken Congress with explosive hearings on how Keating allegedly used powerful people, including five senators, to thwart efforts to restrain his renegade S&L.

AP

KEATING: Hired new lawyer

GRAY: Ex-regulator is scheduled to testify today

Four weeks ago, the committee subpoenaed Keating. However, he was in Europe on business and federal marshals couldn't find him.

Monday, committee staffers met with Keating's new attorney, **John Quinn of Los Angeles.** They gave Quinn the subpoena for today's House hearing, then agreed to delay Keating's appearance until Nov. 21 so Quinn could prepare.

Quinn said it hasn't been decided whether Keating will testify or invoke his Fifth Amendment right.

Today's hearing, meanwhile, should provide new controversy even without Keating. Scheduled to appear:

▶ **Larry Taggart**, who immediately went into business with Lincoln after leaving his job as California's top S&L regulator.

▶ **Lee Henkel**, a developer whom Keating helped place in 1986 on the three-member **Federal Home Loan Bank Board**, then the chief federal S&L overseer. Henkel had borrowed more than $55 million from Lincoln.

▶ **Jack Atchison**, a partner in the accounting firm of **Arthur Young & Co.**, who joined Keating's payroll at $372,000 a year in 1987, after giving Keating's company a clean audit. Atchison has refused the committee's request to submit testimony, raising speculation that he may invoke the Fifth Amendment.

▶ **Ed Gray**, the former top S&L regulator who has accused the five senators of improperly protecting Lincoln.

The Senate Ethics Committee has asked the five senators — **Alan Cranston**, D-Calif., **Dennis DeConcini**, D-Ariz., **John Glenn**, D-Ohio, **John McCain**, R-Ariz., and Senate Banking Chairman **Don Riegle**, D-Mich. — if donations from Keating prompted them to intervene with regulators for the S&L.

California regulators turned over information to the FBI on Cranston's solicitation of $850,000 in donations from Keating, a conservative Republican. The money was given to Cranston-sponsored groups involved in voter registration.

The five senators met with S&L examiners from **San Francisco** in April 1987 to question the handling of their examination of Lincoln.

Keating, 65, also is being investigated by the FBI and the Securities and Exchange Commission. Meanwhile, Keating is receiving a $400,000 annual salary from his family-controlled **American Continental Corp.**, which owned Lincoln and now is under bankruptcy protection. His salary drops to $250,000 on Jan. 1. He also makes an undisclosed amount for managing **The Phoenician**, a luxury hotel in **Scottsdale, Ariz.**, that is one of Lincoln's bad investments.

— Dennis Cauchon

Date: 11/7/89
Edition: USA TODAY

Title:

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Classification: 80-307A.
Submitting Office: PHOENIX

Indexing:

58C-PX-41605 B-2

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FBI — PHOENIX

FBI/DOJ

Routing Slip
FD-4 (Rev. 4-20-81)

Date 1-16-90

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FD-350 (Rev. 5-8-81)

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(Indicate page, name of newspaper, city and state.)

Detroit News
Detroit, Mi.

Date: 1/14/90
Edition: Editorials

Title: Senator Riegle

Character: or Classification: 58C-PX-41605
Submitting Office: Detroit

Indexing:

Damage control?

In announcing Kevin Gottlieb's resignation as chief of staff for the Senate Banking Committee, Sen. Don Riegle, D-Mich., denied that the resignation had anything to do with the senator's own difficulties over his relations with the savings and loan industry. The senator, though, has a plain need to limit the liabilities he faces as much as possible as he tries to wrestle with political as well as ethical questions about his relations with the industry.

Mr. Gottlieb had a lot to do with shaping the way the Senate and Sen. Riegle dealt with the savings and loan bailout law. In recent weeks, important questions have been raised about some of his connections during an 18-month period in 1987-88, when he was out of government, and about the way he has reported speaking fees during the time he has worked for Sen. Riegle. Mr. Gottlieb is knowledgeable about the savings and loan business, and that is an asset. As expensive and as controversial as the bailout legislation is, however, we would feel a lot more comfortable if Mr. Gottlieb had maintained a bit more independence of the S&Ls.

Sen. Riegle and Mr. Gottlieb both have to deal with a political question as well as a specific ethical issue: Did the senator and his staff represent all his constituencies as aggressively and effectively as they should have in a matter of very great potential cost and obvious importance? Sen. Riegle argues that he did, that he was arguing for a strong regulatory stance. The record looks somewhat different to us. What we see is a senator and his principal advisor who have compromised their claim to independence and strength and who are scrambling now to control the political and possibly legal damage that has resulted.

COPY ... TO BUREAU

FD-350 (Rev. 5-8-81)

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(Indicate page, name of newspaper, city and state.)

Detroit News
Detroit, Mi.

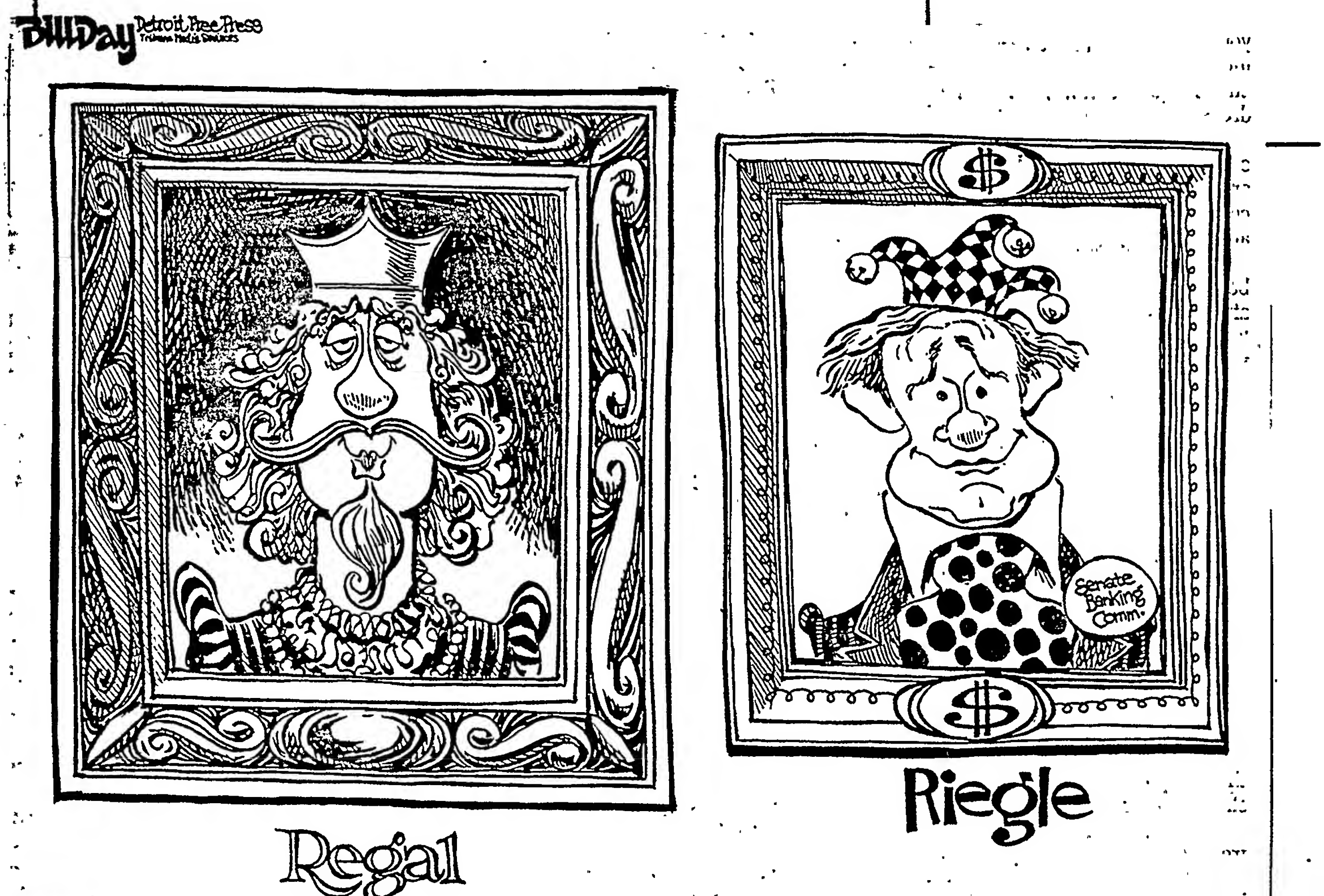
Date: 1/14/90

Edition: Editorials

Title: Senator Riegle

Character: 58C-PX-41605
or
Classification:
Submitting Office: Detroit

Indexing:



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(Indicate page, name of newspaper, city and state.)

Detroit Free Press
Detroit, Mi.

Date: 1/15/90
Edition: 10A

Title: Keating Defends Seeking Help of Senators for S & L

Character: or Classification: 58C-PX-41605
Submitting Office: Detroit

Indexing:

Keating defends seeking help of senators for S&L

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Charles Keating Jr. said Sunday that he sought help from Michigan Democrat Donald Riegle Jr. and four other U.S. senators in 1987 because his now-failed savings and loan had investments in their states.

Speaking on NBC-TV's "Meet the Press," Keating defended his political contributions to the five, whose ties to Keating are being reviewed by the Senate Ethics Committee. Keating faces criminal investigations, a $1.1 billion federal fraud suit and other legal problems from the failure of Lincoln Savings & Loan of Irvine, Calif.

"They had in common the presence of our S&L in a major way in their states," Keating said of the five. "We had successful projects all over that gave employment, gave economic benefits to the community."

Keating's empire, which crumbled last year amid federal fraud charges, included the Hotel Pontchartrain in downtown Detroit.

Keating's comments support Riegle's contention that he was interested in the businessman's case because Keating was a constituent who had invested in Michigan.

On the TV show, Keating said he gave money to the senators' campaigns because he wanted to be part of the political and government process, not because he wanted to buy influence.

That statement contrasts with a widely circulated comment Keating made last April on the question of whether his financial contributions were attempts to influence politicians. "I want to say in the most forceful way I can, I certainly hope so," he said at the time.

On Sunday, Keating called that comment "dumb."

"I wanted to say that I wanted to be involved in the process," he said Sunday. "It's important to me how this country goes, and it was particularly important to me the way the savings and loan industry went."

Keating repeated earlier statements that he believes there was nothing wrong with the five senators meeting with federal regulators in 1987 to discuss Lincoln.

The Senate Ethics Committee and Justice Department are reviewing the conduct of the five. Officials estimate the failure's cost to taxpayers may be more than $2.3 billion.

Riegle denies any impropriety, saying campaign contributions from Keating and his associates had no impact on his conduct. Riegle later returned $78,250, saying he wanted to avoid any appearance of impropriety.

CO... BUREAU

FBI DOJ

FD-350 (Rev. 5-8-81)

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SEN. RIEGLE

He has more to answer than just the specific charges

Sen. Don Riegle, D-Mich., is entitled to put the best face he can on his role in the Lincoln Savings & Loan debacle, as well as to a presumption of innocence on the specific ethics committee charge. The issues go deeper, though, and will require more skillful rebuttal than anything the senator has said yet, whether his "you're another" argument about the Free Press or his attempt to use tape of his performance in a WXYZ-TV (Channel 7) news program

The senator faces both a legal/ethical problem and a political problem, and that makes his defense of his actions somewhat awkward. His efforts to deal with his political problem have the ironic effect of making less defensible his plea that he not be judged until the Senate ethics committee has completed its inquiry into his actions and those of four other senators who met with federal banking regulators to discuss the treatment of Lincoln Savings & Loan and the chairman of its holding company, Charles Keating. If he asks to be judged politically on the basis of his own performance on a TV program, he invites others to draw their own conclusions and make their own judgments about his performance without waiting for the committee's report.

Sen. Riegle may well have a better chance of winning the specific argument before the ethics committee than he does of winning the political argument. The question of whether he acted **improperly** may in the end matter less than whether it is thought by his constituents that he served them well or poorly. We don't happen to think the Senate — or the House or the Reagan administration — served the country very well during this period. They lost sight of their oversight function and helped to assure that the country would not get control of savings and loan practices and their potential impact until unnecessary damage was done. Sen. Riegle didn't really answer that complaint in his letter to us, or his TV performance, or anything else. He didn't answer it because there is no good answer: Too many watchdogs, including the present chairman of the Senate Banking Committee, were focusing on the wrong questions about federal regulation. The country will pay a price that is far greater than the legal/ethical questions the Senate ethics committee must still try to answer.

(Indicate page, name of newspaper, city and state.)

Detroit News
Detroit, Mi.

Date: 1/14/90

Edition: Editorials

Title: Senator Riegle

Character: or Classification: 58C-PX-41605

Submitting Office: Detroit

Indexing:

FD-350 (Rev. 5-8-81)

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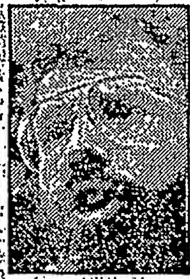
Charles Schumer / The congressman says there is "an inherent conflict of interest" in the accounting and appraisal professions.



William Black / "The worst thrifts spent fantastic sums on (appraisers and accountants) and used them as a screen to hide the thrift's misconduct."

Appraising the auditors

Analysts may be held accountable for thrift failures

By Jerry Kammer and Andy Hall
The Arizona Republic

Developer Charles H Keating Jr. and an entourage flew from Phoenix to New York City last year and demanded that auditors allow American Continental Corp. to show a $56 million profit for a series of investments.

But Arthur Young & Co.'s lead auditor, Janice Vincent, said "no" and insisted Keating's company had earned no profit.

"Lady, you've just lost a job," Keating said acidly.

Within a few weeks, American Continental moved its multimillion-dollar account to another auditing firm, Touche Ross & Co., which offered a preliminary opinion that the investment profits were legitimate.

The federal Securities and Exchange Commission disagreed.

Six months later, American Continental sought bankruptcy protection, and one of its subsidiaries, Lincoln Savings and Loan, was seized by federal regulators, who alleged that the thrift was financially "unsafe and unsound."

Accountants and real-estate appraisers, who legally are obligated to objectively estimate land values, were key figures in the rise of Keating's $6 billion worldwide empire.

But it has become clear that accountants and appraisers failed to protect investors and taxpayers from enormous losses in the collapse of the nation's thrift industry,

— See AUDITORS, page A16

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or 29A-LA-102009 Sub E
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Submitting Office: PHOENIX

Indexing:

58C PX 41605 B-3

Auditors may be held accountable for thrifts

—AUDITORS, *from page A1*

~~including~~ Lincoln Savings.

Suspicions are growing that these professional watchdogs behaved more like lap dogs.

Rep. Jim Leach, R-Iowa, a member of the House Banking Committee, which is probing Lincoln's collapse, called it "a scandal for the accounting profession."

Similarly, William Black, chief counsel for the Federal Home Loan Bank in San Francisco, told the Banking Committee that some appraisers have helped thrifts artificially inflate land values, dooming their loans to failure.

James Feder, an American Continental attorney, denies that the company's auditors and appraisers were improperly pressured to provide favorable analyses.

He said the dispute with Arthur Young in New York was a personality issue.

6 of 11 audits improper

"This was a very heavily lawyered, accounted, professional company," Feder said.

The General Accounting Office, the investigative arm of Congress, this year reported that in six of 11 failed thrifts it studied, accountants "did not properly audit and/or report the savings and loans' financial or internal-control problems in accordance with professional standards."

Taxpayers are beginning to pick up the tab, estimated at $2 billion just for Lincoln, the costliest of the nation's 300 S&L failures. Investors are faced with the loss of $230 million they entrusted to American Continental's junk bonds.

"If you eliminated appraiser abuse, you would probably reduce the losses suffered by the federal government by a minimum of 25 percent," said Peter Barash, a House Banking Committee staff director.

The government may try to force negligent accountants and appraisers to help repay the losses of the failed thrifts that employed them. Criminal investigations are under way.

Reform movements also are under way in the accounting and appraisal professions.

Among the problems reformers must address are:

- Potential conflicts of interest — Accountants and appraisers are required to provide objective analyses, although they are hired by a particular company or S&L. The pressure to write a favorable report, to ensure future business, can be enormous.
- Fraud — More than a dozen accountants are being accused in government lawsuits of fraud stemming from the failure of thrifts, including Lincoln.

Crime allegations

A former Tustin, Calif., auditor has been a fugitive since 1986, when the government accused him of negligence, conflict of interest and malpractice in the $65 million collapse of Ramona Savings & Loan Association.

In Texas, three appraisers have been indicted in connection with alleged fraud at Dallas-based Empire Savings and Loan, which was seized in 1984 by federal regulators. One has been convicted, and two are awaiting retrial.

- Questionable qualifications — There are no education or licensing requirements for appraisers in Arizona and 34 other states, although there are voluntary industry professional standards. As a result of the S&L crisis, however, Congress has ordered that states establish licensing or certification for appraisers who will work on "federally related transactions," beginning in mid-1991.
- Lax self-policing — Accountants and appraisers have come under attack for failing to discipline unscrupulous members of their ranks.

In 1987, the latest year for which figures are available, the American Institute of Certified Public Accountants revoked the membership of 16 of its 280,000 members for violation of accounting rules.

The government is considering adding three "Big Eight" accounting firms as defendants in a $1.1 billion civil racketeering and fraud suit that accuses Keating and company insiders of siphoning Lincoln's deposits for personal gain. The accounting firms, all of which previously worked for Keating, are Arthur Young, now called Ernst and Young; Arthur Andersen, and Touche Ross.

'Conflict of interest'

"I have always wondered how the accounting profession and the appraisal profession work, because obviously, the people who you're giving the stamp of approval to are paying you," Rep. Charles Schumer, D-N.Y., a member of the Banking Committee, told Ernst and Young executives at a hearing in November.

"And there is an inherent conflict of interest in that."

Despite Arthur Young's "last stand" with Keating over the $56 million in "profits," the accounting firm has not been spared from harsh reviews for the two years it worked for Keating. Schumer told the executives that he was "amazed" at what happened while they worked for Keating from 1986 to 1988.

"And if you couldn't catch some of these things, then something is rotten in Denmark, then something has to be changed in the auditing profession," Schumer said.

In testimony to the House Banking Committee in October, Black said, "Lincoln is proof positive that any thrift in America could obtain a clean audit opinion despite being grossly insolvent."

He added that Arthur Young did work for two failed thrifts in Texas.

The firm's Dallas office, Black said, offered the "K mart blue-light spe-

cial" to savings and loans that shopped for compliant auditors. The failures of two thrifts the firm audited there, Vernon and Western Federal, are expected to cost the federal insurance fund about $1 billion each.

Land sales critiqued

Fifteen sales of land by a Lincoln subsidiary, all of which were reviewed and approved by Arthur Young, were the subject of a blistering report released in August by federal thrift regulators.

The report, prepared for the government by the Kenneth Leventhal accounting firm, called the sales phony and the accounting incompetent.

"Seldom in our experience as accountants have we encountered a more egregious example of the misapplication of generally accepted accounting principles," it said.

Feder, the American Continental attorney, condemned the Leventhal report as inaccurate and seriously flawed because no interviews were conducted with companies involved in the transactions.

Much of the federal probe of Arthur Young centers on Jack D. Atchison, who headed the Phoenix audit team that checked Keating's books for 1986 and 1987, a period when Lincoln was making many of the transactions regulators now allege to have been fraudulent.

In early 1988, shortly after signing American Continental's annual report for 1987, Atchison resigned his $225,000-a-year position to go to work for Keating, earning $954,000 in salary and bonuses.

In early 1987, Atchison played a key role in persuading five U.S. senators to intervene in Keating's behalf with federal thrift regulators. Reflecting Keating's criticisms, Atchison wrote a now-controversial report saying that the regulators had taken "unusually antagonistic positions" against Lincoln and that their examination of the Irvine, Calif., thrift could be expected to conclude with an "unduly harsh" report.

Intervention justification

Atchison has refused to comment on his actions.

The senators repeatedly have pointed to that "opinion of a Big Eight accounting firm" as their justification for intervening.

Although several members of the House Banking Committee speculate that Atchison's employment with American Continental may have been a form of payment for improper accounting, that theory is rejected by Ernst and Young executives.

"We have no reason to believe that Mr. Atchison committed any impropriety" during his affiliation with the firm, said William Gladstone, co-chief executive at Ernst and Young, adding that a number of other employees assisted Atchison in reviewing Lincoln's books.

Gladstone said his firm "applied its best, independent professional judgment" to its Lincoln audits. Ernst and Young accountant Nancy Matusiak told the House committee that the Kenneth Leventhal report made "sweeping generalizations" and "some serious mistakes."

Atchison was not alone in leaving his accounting job to work for Phoenix-based American Continental. Keating's son, Charles H. Keating III, an American Continental executive vice president, estimated that the company has hired more than 50 certified public accountants from independent firms that had examined its books. One of them was Andrew Liggett, the company's chief financial officer, who came to American Continental from Arthur Andersen and is a defendant in the racketeering suit.

Appraiser felt pressured

Real-estate appraisers apparently were subjected to pressure to give American Continental the numbers it wanted.

Two real-estate industry executives who are close to former Lincoln appraiser Timothy Morrison say he resigned in June 1988 because he believed Lincoln officials were trying to push unrealistically high appraisals for vacant land at Estrella, a 20,000-acre master-planned community southwest of Phoenix.

Morrison's job was to review the work of appraisers hired by Lincoln from various firms in the Phoenix area and Tucson.

"Tim told me that the straw that broke the camel's back was Estrella," one of the executives recalled. "He said, 'I'm not signing off on those appraisals.'"

Morrison declined to discuss his resignation, citing a confidentiality agreement with American Continental. He now is an appraiser with the Burke - Hansen appraisal firm of Phoenix.

An appraisal is an estimate of the value of a property. It helps a banker know how much to lend to the buyer. The idea is that if a loan goes bad, the bank, or savings and loan, will be able to recover its money by selling the land.

One method used by appraisers is to study sales of comparable properties, or "comps." Regulators suspect that Lincoln created its own comps at inflated values with the help of compliant appraisers.

'Subjective elements'

The younger Keating, who directed land sales for the real-estate subsidiary of Lincoln Savings and Loan, denied that efforts were made to inflate land valuations at Estrella.

But he acknowledged that company officials disagreed with Morrison over appraisals.

He branded Morrison a "malcontent."

Keating said he frequently consulted with appraisers hired by Lincoln to evaluate land at Estrella.

"There are so many subjective elements to a piece of property that they have to work hand in hand with the developer to understand what those elements are," he said.

One important piece of information relating to Estrella was a study that projected rapid growth for the area, he said.

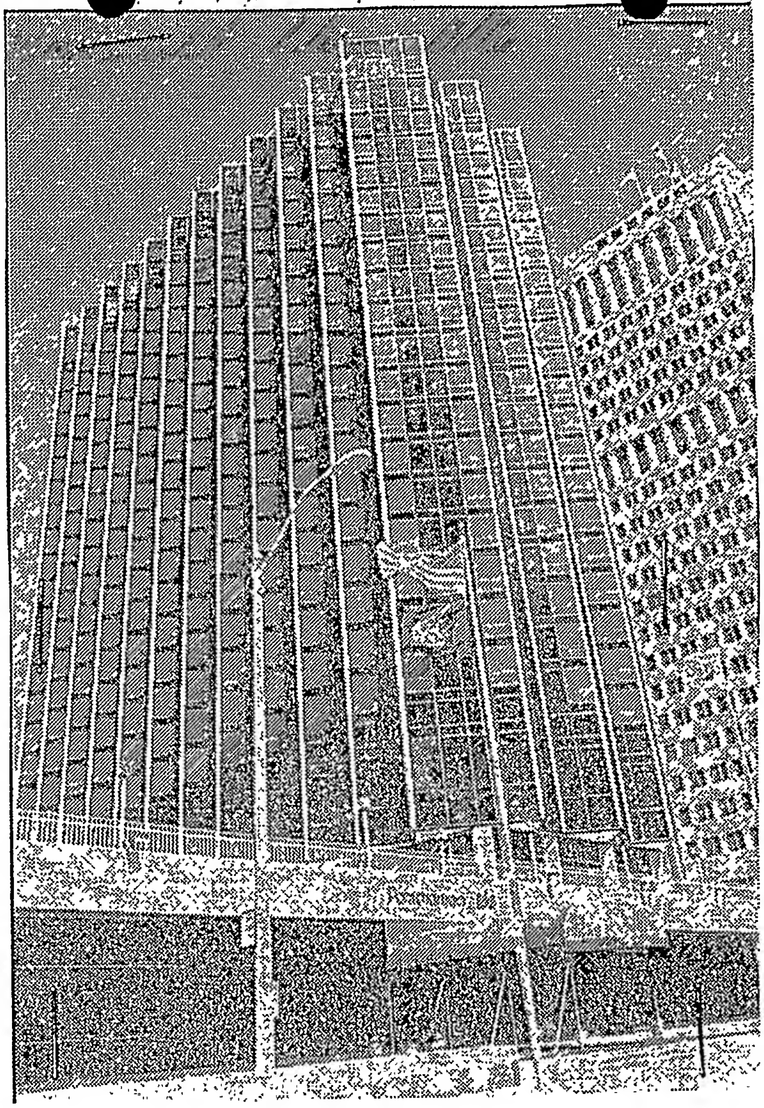
The study was done by Mountain West, a Phoenix-based real-estate consulting firm that also provided appraisals on some Estrella parcels.

The younger Keating said he doesn't think much of appraisers.

"I never knew one appraiser who made any money in the business," he said.

"If they're the experts, they should be the guys making all the money."

HOW MUCH IS A HOTEL WORTH?



A partnership composed of many American Continental Corp. insiders purchased the Hotel Pontchartrain in downtown Detroit in March 1985. Since then, however, business has sputtered at the hotel. Losses, which could total $10 million, will have to be covered by taxpayers. That is because the partnership borrowed money from Lincoln Savings and Loan and the San Jacinto Savings Association, a subsidiary of Southmark Corp., a Texas-based real estate and finance company.

Federal regulations required the buyers to obtain appraisals to ensure that the hotel merited the loans of the thrifts' federally insured deposits.

Appraisals are estimations of value that serve as guideposts for potential borrowers and lenders on a property. Depending on projections of the profitability of a property, appraisals can fluctuate widely within short periods of time, as illustrated by this series of appraisals on the hotel:

March 1985: The Hotel Pontchartrain is valued at $37.2 million in an appraisal commissioned by an American Continental subsidiary and conducted by Michigan-based Dean Appraisal Co.

December 1985: The hotel is valued at $44.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted by Dean Appraisal Co.

March 1987: The hotel ~~is~~ valued at $46 million in an appraisal commissioned by Detroit and conducted by Hospitality Valuation Services Inc., based in Mineola, N.Y.

September 1988: The hotel is valued at $26.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted again by Hospitality Valuation Services.

January: The hotel is valued at $53 million in an appraisal commissioned by Lincoln Savings and ~~conducted~~ conducted by Pannell Kerr Forster.

FD-350 (Rev. 2-8-81)

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Keating wins delay in date with panel

Likely to answer queries Nov. 21

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr. won a delay Monday in his scheduled appearance before a House panel probing the collapse of Lincoln Savings and Loan, but officials said they believe that he will answer questions when he appears Nov. 21.

The multimillionaire Phoenix developer and financier, who was to have appeared today, was given a two-week extension after the House Banking Committee agreed to allow his new attorney more time to prepare for the testimony, officials said.

Keating, former head of the unsuccessful thrift, is facing civil racketeering and fraud suits, leading to speculation about whether he will agree to testify or invoke his Fifth Amendment right against self-incrimination.

But banking panel staffers said it now appears that Keating plans to testify, at least to some degree.

"I would think that if they weren't going to testify, they wouldn't need any more time to prepare," said Jake Lewis, staff director.

Banking Committee Chairman Henry Gonzalez, D-Texas, agreed to the extension in hopes that Keating will cooperate fully when he appears.

Keating's new attorney, John J. Quinn of Los Angeles, accepted a subpoena from Gonzalez on Monday on behalf of Keating and pledged that his client will appear. Quinn could not be reached for comment.

Despite Keating's absence, the hearing is expected to produce fireworks. Edwin Gray, former Federal Home Loan Bank Board chairman, is expected to unleash a barrage of criticism against Keating's methods and the influence he held with politicians, particularly Arizona Sens. Dennis DeConcini and John McCain.

Other witnesses will include Larry Taggart, former California Savings and Loan commissioner, who approved Keating's 1984 purchase of Lincoln.

The Arizona Republic disclosed in August that just weeks before Taggart left office in 1985, he granted Lincoln permission to invest $800 million in risky ventures. He then went to work for a private firm that received a $2.9 million investment from Lincoln.

In addition, testimony is expected to be heard from former bank-board

— See KEATING, page A8

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Submitting Office: PHOENIX

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FBI/DOJ

Keating wins delay in testimony

— KEATING, *from page A1*

member Lee Henkel, who resigned in 1987 amid claims that he had tried to push through a favorable regulation for Keating. Even before taking the job in 1986, Henkel acknowledged that businesses he had ties to received millions in loans from Lincoln. Previous witnesses have said McCain was instrumental in getting Henkel confirmed.

Also testifying will be Jack Atchison, a former executive with Arthur Young & Co., which audited the thrift in 1987 and praised its management. Atchison went to work for Keating a year later as a senior vice president of American Continental Corp.

Gray's testimony is expected to aim at his longtime adversary, DeConcini.

It was DeConcini who arranged two April 1987 meetings with federal officials to discuss Keating's complaints that he was being harassed by the government.

The first session was with Gray, and the second, a week later, was with federal examiners who were regulating Lincoln Savings. That session was attended by Democrat DeConcini, Republican McCain, and Democratic Sens. Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

HEARINGS ON THE AIR

✔ KAET-TV (Channel 8) will broadcast the House Banking Committee hearings live from 7:45 a.m. to noon. The hearings will be repeated in their entirety on tape starting at 10 p.m.

✔ The hearings also will be featured at 6 p.m. on the *MacNeil/Lehrer NewsHour* and at 7 p.m. on *Horizon*, both on KAET-TV.

✔ C-Span will carry the hearings live from 8 a.m. to 10 a.m., then rebroadcast the entire proceedings at an unspecified time later Tuesday.

Each of the five accepted large contributions from Keating, and the group has become known in political circles in Washington as the "Keating Five."

Gray long has contended that DeConcini sought in the meetings to cut a deal for Keating to get federal officials off his back, and Gray said he plans to base his testimony today on a confidential memo prepared by DeConcini's staff. The existence of that memo was revealed by *The Republic* last month.

"It is an extremely damning memorandum for Dennis DeConcini," Gray said. "This is the man who so righteously denies that he tried to make a deal, and yet he's got a deal sitting on his lap."

The memo lists concessions that Keating was willing to make in exchange for leniency from the bank board.

DeConcini has acknowledged that he had the memo drawn up and that he used it in the April 1987 meetings. But he has denied that he ever sought any kind of deal for Keating.

The senator has added that he expects Gray, who was bank board chairman from 1983 to 1987, to attack him vigorously. He said he and Gray have been at odds since 1985, when the senator asked White House aides to have him fired for alleged incompetence.

DeConcini on Monday attacked Gray and questioned his credibility, saying the former regulator left office "under a terrible cloud" because he had accepted improper reimbursements for travel expenses.

"He stole $26,000 and had to give it back," said DeConcini, in an appearance on Phoenix radio station KTAR-AM.

Charles H Keating Jr. / Was given a two-week extension to allow his new attorney more time to prepare.

Gray in 1986 repaid $26,000 to district banks and industry organizations, acknowledging that he made "flawed judgments" when he accepted reimbursements for travel to S&L events and to conferences.

However, Gray claimed that bank board chairmen long had accepted such reimbursements. He said the controversy was raised by S&L executives who opposed his attempts to restrict risky lending and direct investment practices as dangers to the federal deposit insurance fund.

DeConcini also charged on KTAR that Gray had "taken over a million dollars and broken the law for lavish expenses for the Federal Home Loan Bank Board."

The General Accounting Office, the investigative arm of Congress, found in a study that the bank board in 1985 and 1986 had "illegally augmented its budget" by about a million dollars when it allowed its district banks to pay the costs of travel, salaries and consulting studies that should have been borne by the bank board.

During his radio appearance, DeConcini also blamed Gray for thrift-industry devastation and said Gray's poor record further brings his credibility into question.

"Mr. Gray's got a terrible conflict because he was in charge during the time that all of this problem came up, not just with Lincoln but in the entire industry. And he was wined and dined by the industry and didn't do anything about it. Now he wants to re-create history, blame the senators, blame Dan Wall, blame anybody he can."

DeConcini was referring to M. Danny Wall, former staff director of the Senate Banking Committee and current chairman of the Office of Thrift Supervision.

Gray was unavailable for comment Monday. He consistently has argued that his attempts to limit the S&L debacle by tightly regulating high-flying thrifts ran into political opposition on Capitol Hill.

Contributing to this article were Do[n] Harris and Jerry Kammer of *Arizona Republic*.

Randy

Washington Post
(Indicate page, name of newspaper city and state) P. B1
Santa Ana, California

(Mount Clipping in Space Below)

Gray: Regan, 5 Senators Swayed by Keating's Clout

Ex-Regulator Testifies on Collapsed Thrift

By Jerry Knight
Washington Post Staff Writer

Former Federal Home Loan Bank Board chairman Edwin J. Gray yesterday charged that former White House chief of staff Donald T. Regan and five U.S. senators were swayed by political contributions to seek special favors for the owners of Lincoln Savings and Loan Association, the California thrift whose collapse is expected to cost the taxpayers more than $2 billion.

Testifying in the House Banking Committee's investigation of the failure of Lincoln, Gray said the senators who met with regulators in 1987 on behalf of the thrift had "gone too far" and said, "It ought to be a criminal act to intervene in the regulatory process."

Gray accused former Lincoln owner Charles Keating Jr. of using his political influence with the White House and Congress to ward off regulators who wanted to clamp down on Lincoln's investments in real estate speculation, junk bonds and other high-risk ventures that ultimately led to the S&L's collapse.

Gray and Shannon Fairbanks, who was his chief of staff, also said that by the time they left the bank board in June of 1987, the agency's staff had enough evidence of wrongdoing to initiate disciplinary action against Lincoln, but it was almost two more years before anything was done by Gray's successor, M. Danny Wall.

The two Reagan administration officials were the latest witnesses called before the banking panel in its wide-ranging investigation of the collapse of Lincoln, which is expected to be the most costly thrift failure ever.

Gray gave the panel new specifics about two meetings between federal regulators and a group of senators who intervened on Keating's behalf and also detailed a series of conflicts with White House officials over thrift regulation.

In April 1987, Gray discussed Lincoln with Sens. Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), Alan Cranston (D-Calif.) and John Glenn (D-Ohio), and then arranged for a group of lower-level regulators to meet two weeks later with those senators and Sen. Donald W. Riegle Jr. (D-Mich.), now chairman of the Senate Banking Committee. Keating directly and indirectly channeled contributions to all five senators.

Gray said yesterday that the first meeting was arranged at the suggestion of Riegle, who has said that his

See LINCOLN, B4, Col. 1

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BY JAMES K.W. ATHERTON—THE WASHINGTON POST

Former bank board chief Edwin J. Gray during hearing yesterday on Lincoln S&L.

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LINCOLN, From B1

only involvement with Lincoln was to attend the second meeting.

Gray said Keating "devised a scheme" to create the impression that Lincoln's problems were the result of "a vendetta against Lincoln by its regulators, principally myself."

"Senators Cranston, DeConcini, Glenn and McCain had evidently bought off on the scheme," Gray said. "The receipt of very substantial gifts from Charles Keating and his associates had long since put them in the right frame of mind to give great credence to—and yes, to embrace—the notion that there was somehow a vendetta. . . . When enough money flows, it's apparently easier to be gullible."

Gray said his meeting with the senators "was highly unusual to me" because it occurred after the work day, in DeConcini's private office, with no staff members present, and because DeConcini wanted the bank board to withdraw a regulation that had already been implemented.

DeConcini offered to make a deal on behalf of Keating and American Continental Corp., the holding company that owned Lincoln, Gray charged. Keating wanted regulators to drop restrictions on Lincoln's investments in real estate and junk bonds and to back away from complaints that the value of Lincoln's investments were inflated by phony appraisals. In return, Keating promised that Lincoln, which had stopped lending money for home mortgages, would go back into the mortgage business and would get out of the S&L business within 10 years.

All the senators have disputed Gray's account of the session and have backed DeConcini in his denial that any deal was offered. Yesterday, Gray made public a confidential memo written just before the meeting by a DeConcini staff member that spelled out "What American Continental wants from Gray" and "What American Continental is willing to do." DeConcini has said that the existence of the memo does not prove he attempted to make any deal.

A spokesman for DeConcini yesterday described Gray as "a man who realizes that during his watch there was a catastrophe costing $150 billion and he is desperately looking for anyplace to lay the blame. In the process, he has lost track of the truth."

Gray said Keating's political influence extended into the Reagan White House, where Regan—as White House chief of staff—also intervened on behalf of Lincoln and other thrifts.

Regan twice sought to get him to resign, Gray said, and was responsible for the appointment to the Federal Home Loan Bank Board of Lee Henkel, an Atlanta attorney who had represented Keating and borrowed money from Lincoln.

At his first board meeting, Henkel proposed a change in rules that would have exempted Lincoln from regulations limiting real estate investments by thrifts. The proposal caused such a furor that within six months, Henkel resigned. Gray said he believe Henkel quit to avoid a congressional investigation.

Regan could not be reached for comment yesterday.

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(Mount Clipping in Space Below)

DeConcini retunes in own 'Thriller'

In Washington, they call them "The Keating Five." Five U.S. senators who went to bat for millionaire Charles H Keating Jr. during the federal government's investigation of Keating's Lincoln Savings and Loan Association.

Two of them, Dennis DeConcini and John McCain, are from Arizona. The others are John Glenn of Ohio, Alan Cranston of California and Donald Riegle of Michigan.

E.J. MONTINI
Republic Columnist

Each of the five has contributed to the group's overall performance. But if The Keating Five were The Jackson Five, the part of Michael Jackson would be played by DeConcini.

From the start, DeConcini has been the band's lead singer and principal dancer. Now, he is striking out on his own, singing a new song. And there's no doubt about it, Dennis is *Bad*.

In his latest tune, the senator claims that he did nothing wrong in either accepting $55,000 in campaign contributions from Keating or in orchestrating a meeting between five senators and the federal regulators investigating Lincoln.

"I have intervened on behalf of other Arizona constituents for similar reasons," he said.

McCain, who took $112,000 and vacation trips to the Bahamas from Keating, was singing a different verse of the same song a few weeks ago.

Pleading his case in 'The Times'

McCain used radio and TV to say he had treated Keating as he would have treated any other constituent. Last weekend, McCain went so far as to imply in *The New York Times* that helping Keating was not much different from helping a destitute old woman get back her Social Security check.

No one's dancing to that tune, however.

That's why DeConcini rewrote the music. Instead of simply saying he did nothing wrong, the senator is blaming everything on Edwin Gray, former chairman of the Federal Home Loan Bank Board. Gray was the man summoned to DeConcini's office to face five senators.

DeConcini now wants Gray, not himself, to face the music.

This is partly because Gray told a House committee investigating Lincoln's problems that the meeting in DeConcini's office delayed the government's seizure of the savings and loan, leaving U.S. taxpayers — us — with a $2 billion bill.

Gray is not without problems

Gray is also an easy target. He has had his own problems. For instance, Gray had to pay back $26,000 in improper travel accepted during his tenure. This led DeConcini to say Gray left his office "under a cloud."

Over the next few weeks, so long as there are hearings going on in Washington over the Lincoln fiasco, DeConcini probably will point out many other naughty things that he believes Edwin Gray did.

But it won't work.

In the end, the things that Edwin Gray did are not nearly as important as the things that Edwin Gray *didn't* do.

For example:

Edwin Gray didn't gather five senators at a meeting in Keating's behalf to intimidate a federal regulator.

DeConcini did.

Edwin Gray didn't direct his staff to prepare a memo listing "concessions" that Keating was willing to make in exchange for leniency from the bank board.

DeConcini did.

Edwin Gray didn't take $55,000 in campaign contributions from Keating and associates.

DeConcini did.

Edwin Gray didn't work with two campaign aides who received $50 million in real-estate loans from Keating's Lincoln Savings and Loan.

DeConcini did.

Edwin Gray didn't bow to one wealthy and powerful man, Keating, at the eventual expense of millions of not-so-wealthy others.

DeConcini did.

Edwin Gray didn't represent the citizens of Arizona.

DeConcini didn't, either.

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Troubles mounting for Keating

Reportedly will plead Fifth today

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr., the central character in House Banking Committee hearings on the failure of Lincoln Savings and Loan, will invoke his Fifth Amendment right against self-incrimination today and refuse to testify, sources say.

Keating, who late last week sought a deal in which he would not even have to appear, also may claim his right under House rules to close the hearing to the public and the press before he refuses to testify, sources said.

Keating, a Phoenix developer and financier, might change his mind at the last minute, observers say, particularly if he becomes angered by opening statements.

But sources pointed to his attempt last week to seek a deal to not even appear as evidence that he will not answer questions about his role in Lincoln's collapse.

Keating's attempt to avoid appearing was made late last week when his Los Angeles attorney, John Quinn, asked that his client be able to invoke the Fifth Amendment in writing.

But the Banking Committee chairman, Rep. Henry Gonzalez, D-

— *See* KEATING, *page A8*

— KEATING, *from page A1*

Texas, refused the request Friday, sources said.

Gonzalez and the panel's ranking Republican, Chambers Wylie, R-Ohio, informed Quinn that they expect Keating to show up, sources said.

Panel spokesman Jake Lewis said there has been contact between the committee and Keating's attorney, but he would not comment further.

"We've had a number of exchanges with Keating's lawyer, but we're not going to discuss our conversations," Lewis said. "We will withhold comment until Keating appears."

Quinn did not return telephone calls Monday seeking comment.

'Charlie is a fighter'

Keating, considered the most crucial witness in the series of hearings, has rejected all press interviews about his failed California thrift, and his aides say they do not know whether Keating will testify.

"I bet he's personally still weighing this," spokesman Brad Boland said late Monday. "Charlie is a fighter."

Keating originally had been scheduled to appear Oct. 31, but won a delay after he had hired Quinn and requested more time to prepare.

One other witness, Jack Atchison of Lincoln's parent company, Phoenix-based American Continental Corp., has refused to testify before the committee. Atchison once worked for the accounting firm that gave Lincoln a clean bill of health, then was hired by Keating at a salary of $900,000 a year. He invoked his Fifth Amendment right saying he didn't ~~want to~~ help the numerous on-going investigations ~~into~~ Keating and American Continental.

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Keating to go before panel, plead Fifth

Henry Gonzalez / Reportedly refused Charles H Keating Jr.'s request to invoke the Fifth Amendment in writing.

The legal maneuvering by Keating comes as the Banking Committee prepares for what is expected to be the last and most explosive Lincoln Savings hearing for weeks.

M. Danny Wall, director of the Office of Thrift Supervision and the target of much of the committee's ire, is scheduled to be the first witness today. Panel members, some of whom have called on him to resign, are expected to grill Wall over why it took him so long to close the thrift when he was chairman of the Federal Home Loan Bank Board.

Testifying with Wall will be two senior deputies, Rosemary Stewart and Darrell Dochow. Keating will appear last.

Inquiry became political

The hearings originally were launched to probe why regulators particularly Wall failed to clamp down sooner on Lincoln. They have instead evolved into a politically damaging inquiry into why five senators interceded on Keating's behalf.

Turmoil continues in the panel over whether to subpoena the senators, known as "the Keating Five," as well as California Gov. George Deukmejian.

Deukmejian and the senators — Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Don Riegle, D-Mich. — all received large campaign contributions from Keating and sought to help his ailing thrift.

Gonzalez, who is under intense political pressure not to violate protocol by ordering the senators to appear, has indicated recently that he would not call the senators but would welcome them if they volunteered to testify.

But one source said there is so much pressure from other panel members to call the senators that Gonzalez has indicated he would do so if he also could subpoena Deukmejian, a Republican.

Deukmejian's involvement stems from the fact that Lincoln is based in Irvine, Calif., and that state regulators allegedly were pressured to go easy on the thrift.

Banking Committee spokesman Lewis denied that there was discussion of calling Deukmejian, and said there is no dissension among committee members.

However, Rep. Toby Roth, R-Wis., and other panel members have made it clear publicly that they want to hear from the senators, and sharp exchanges among committee members have been common since the hearings began Oct. 17.

Also, key committee Democrats met privately Monday to discuss "who will or will not be subpoenaed in the future, if anybody," a committee member who also asked to not be named said, adding that "there have been a lot of names that have been raised." Lincoln was seized by federal agents April 14, and estimates of how ~~much its~~ collapse will cost have ranged as high as $2.5 billion, making it the nation's costliest S&L failure.

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Charles H Keating Jr. / Investors request that he not be allowed to touch $250 million in assets without court approval.

Tied to false notice on Lincoln sale

By Jerry Kammer, Andy Hall and Lisa Morrell
The Arizona Republic

Charles H Keating Jr. personally directed preparation of an American Continental Corp. announcement in February that falsely claimed that the sale of Lincoln Savings and Loan was "imminent," his former top spokeswoman has told *The Arizona Republic.*

The announcement has been part of a federal Securities and Exchange Commission investigation because SEC regulations prohibit publicly traded companies from making statements that could mislead investors into thinking the company's stock will change in value.

And today, the House Banking Committee, which is conducting hearings into Lincoln's collapse, is expected to be shown a Feb. 3 letter from Darrell Dochow, key federal

— *See* **LINCOLN,** *page A8*

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Lincoln sale notice tied to Keating

LINCOLN, *from page A1*

thrift regulator, warning American Continental's board of directors before the announcement that the sale stood little chance of approval.

American Continental's statement, distributed to the news media and stockbrokers, was issued a day after the company's stock dropped sharply, falling 87 cents, to $5.50 a share. It had sold for more than $10 a share the previous December.

Market observers blamed the slide on rumors that the proposed sale of the thrift to the group led by Spencer Scott, a longtime thrift executive leading a group of California investors, had hit snags and that American Continental was in financial trouble.

Stock values rose

When the announcement was released Feb. 9, stock values of Phoenix-based American Continental rose to $6.25 per share, and trading volume increased sharply.

Ernest Leff, one of the investors in the group trying to buy the thrift, said recently he knew the press release was wrong then, and he was surprised by the claim that the sale was imminent.

"It was untrue in our judgment, but Charlie thought he had the deal greased," Leff said last week. "I smiled when I saw Charlie making his flamboyant statements."

Patricia Johnson, a former public-relations director for American Continental, said she wrote the Feb. 9 statement at Keating's direction.

"He said that he wanted, no matter what else I put in the press release, to make sure I used the word 'imminent,'" Johnson said. She is the first of Keating's upper-echelon associates to describe publicly what went on behind the scenes at the often-secretive company.

Her comments are the first indication that Keating, the controversial chairman of American Continental, personally controlled preparation of the statement.

In documents prepared for the SEC, however, American Continental officials have blamed Johnson for the statement.

The press release quoted Keating as saying, "I am delighted that the sale is so near completion. We are anxious to move forward and concentrate our efforts on the Phoenician Resort, the Crescent Hotel and other investments." Thrift regulators seized the Phoenix hotels and fired Keating's management team Thursday.

Sale 'imminent'

The news release was typed on American Continental stationery under the headline "Closing of Lincoln Savings sale is imminent."

Johnson showed *The Republic* a draft of the press release, including the headline, and a handwritten change she says was made by Keating. The draft "proves that Charlie did see the press release before it went out," she said.

American Continental officials did not return phone calls seeking comment. Keating has denied wrongdoing.

Johnson, who now is a self-employed public-relations consultant, said she was laid off by Keating in April. She was replaced by Mark Connally, son of former Texas Gov. John Connally.

Johnson said Keating ordered her to arrange for the story to be distributed on the Dow Jones wire, a news service that sends reports directly to brokers across the company.

The first sentence of the three-sentence bulletin read:

"American Continental Corp. said completion of the sale of its Lincoln Savings & Loan unit to an investment group headed by Spencer Scott is 'imminent.'"

But the day after the statement was issued, California thrift regulators announced, "There is no way that the sale can be imminent."

And William Davis, chief deputy commissioner of the California Department of Savings and Loan, said the statement was "misleading to the public."

Statement tempered

The company also issued a statement Feb. 10 tempering its optimism of the previous day.

American Continental stock prices started back down Feb. 13. They reached $5.63 on Feb. 14.

Although Keating continued to search for buyers, regulators rejected all proposals, and Lincoln was not sold. It was seized by federal regulators in April.

Davis, the California S&L regulator, said American Continental's statement misled investors into believing that the company was more valuable than it actually was.

"What bothered me was that they lied," Davis said Monday. "They knew absolutely dead certain that the sale was not imminent.

"They're interested in furthering American Continental's agenda even at the sacrifice of what's important to the public and what's truthful."

Davis said he suspects that investors were harmed by the release of the statement.

"Somebody could have bought the stock," he said, "based on the fact that the sale was imminent and then end up holding stock certificates that they paid good, hard cash for, that were worth nothing because the sale wasn't imminent and, in fact, the company was near bankruptcy."

American Continental stock now trades for 5 cents a share.

A company "loses a lot of its flexibility with a lower stock price," said Thomas Glynn, a stockbroker with Rauscher Pierce Refsnes Inc., a

regional brokerage firm in Scottsdale.

'Harder raising money'

A company whose stock falls sharply is "going to have a harder time raising money, no question about it," Glynn said.

The value of the outstanding stock falls, so there's not as much capital to borrow against, he said.

A spokesman for the SEC, citing the agency's confidentiality regulations, refused to comment on the SEC's ongoing investigation of American Continental.

However, in October, the Office of Thrift Supervision, which regulates the nation's S&Ls, called the news release "misleading."

Companies that are found to have issued misleading press releases are subject to a variety of SEC actions, from correcting errors to court injunctions against further violations. In the most serious cases, the U.S. Justice Department can press criminal charges with penalties of up to $1 million and 10 years in prison.

In a March draft of a response to an SEC inquiry about the release, American Continental attorney Karen Katzman wrote that Johnson had been "barraged" with phone calls from reporters who had been fed "vicious rumors" by investors who had taken a "short position" in American Continental stock. A short position is basically a bet that the price of a stock will fall.

"Ms. Johnson believed that the most expeditious way ~~to deal~~ with the rumors" was to issue the release, Katzman wrote.

Katzman noted that on Feb. 10, American Continental issued a second release contradicting the first. It said, "There could be no assurance that definitive financing arrangements will be concluded or regulatory approval of the transaction obtained."

Regulator 'shocked'

"The February 9 press release was prepared by Patricia Johnson," Katzman wrote, while the Feb. 10 release was prepared by Katzman's law firm along with American Continental attorney Robert J. Kielty and Keating.

Katzman declined comment.

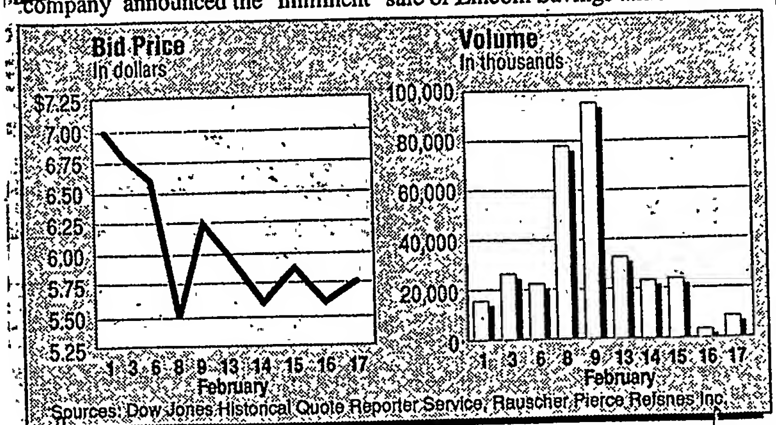
Federal regulator Al Smuzynski, whose office was reviewing the proposed sale in February, said he was "shocked, to put it mildly," when he read the American Continental release quoted in a news article. He said his office notified the SEC that the press release misrepresented the proposed sale.

Smuzynski is the assistant director of supervision operations in the Office of Thrift Supervision, which until August was known as the Federal Home Loan Bank Board.

Smuzynski said "negative information" about the proposed buyers of Lincoln made regulators doubt their qualifications.

AMERICAN CONTINENTAL STOCK RECORDS

Bid prices and volume on American Continental stock for selected days in February. Price and volume increased sharply on Feb. 9, when the company announced the "imminent" sale of Lincoln Savings and Loan.



The Arizona Republic

Christine Keith/The Arizona Republic

Patricia Johnson, a former public-relations director for American Continental, is the first of Charles H Keating Jr.'s upper-echelon associates to describe publicly what went on behind the scenes at the often-secretive company.

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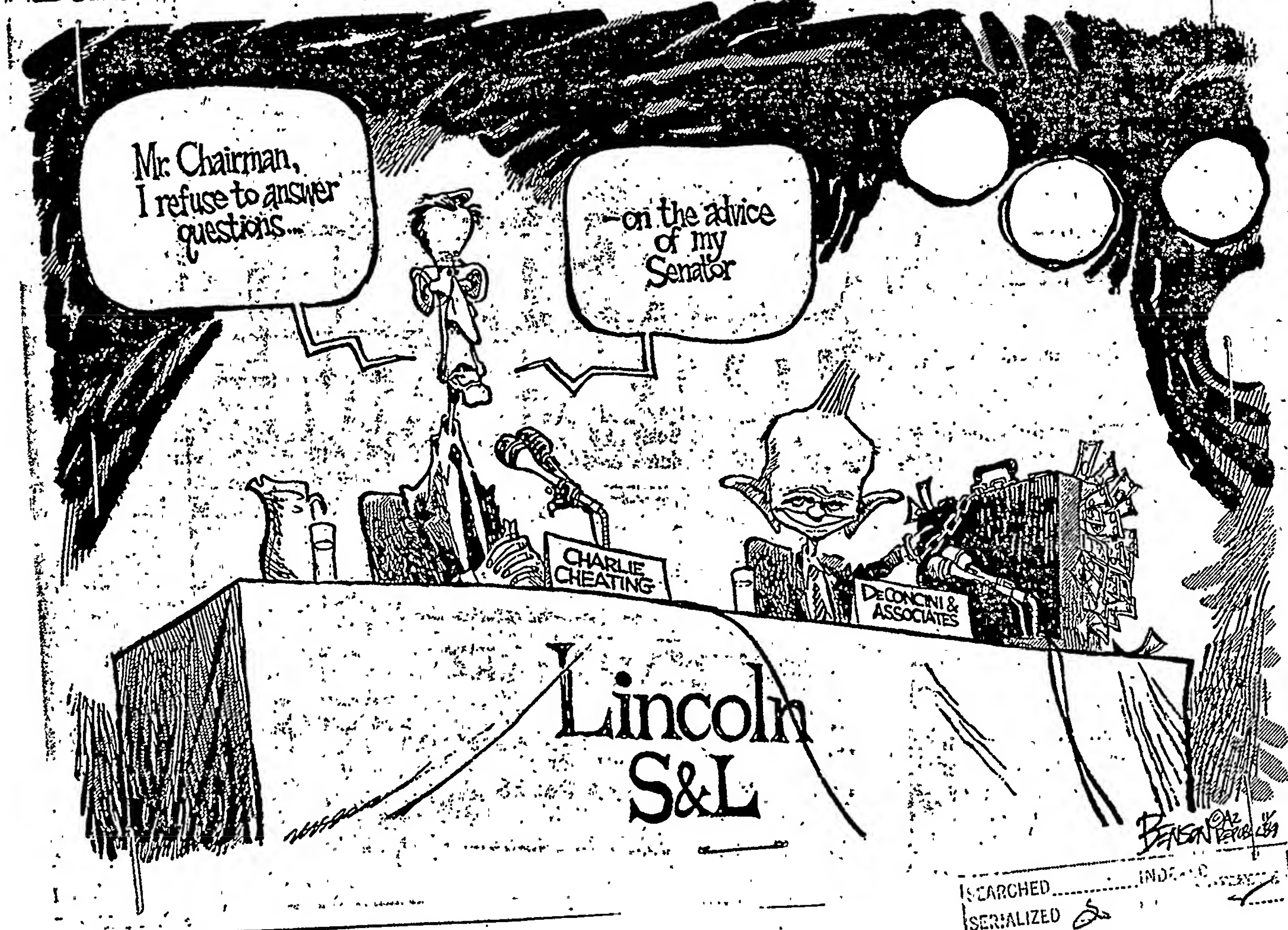

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First Mecham, now Keating: Just say you live 'out West'

Just when you thought it was safe to admit you're from Arizona . . .

First, there was national ridicule over Republican Evan Mecham, the first U.S. governor to be impeached and ousted from office in 59 years. Then, word of economic trouble in paradise was splashed across the front of *Barron's*. And now, sprawled across newspapers and TV screens from coast to coast is Arizona's own Charlie Keating and two-fifths of the now-notorious "Keating Five."

Indeed, the Grand Canyon State is home to the man behind the single largest thrift failure in the United States. That's Keating's Lincoln Savings and Loan Association, whose collapse is expected to cost us taxpayers up to $2.5 billion to bail out.

And Arizona is the only state with *both* of its senators — Democrat Dennis DeConcini and Republican John McCain — at the infamous April 1987 meetings at which Keating-connected lawmakers pressured federal regulators to go easy on their financially well-endowed buddy. It was even DeConcini who called these highly unusual meetings in his office.

This mess may become the most-investigated thrift scandal. At least seven governmental bodies are probing: the House Banking Committee, the Senate Ethics Committee, the FBI, the Securities and Exchange Commission, the Internal Revenue Service, the California General Assembly and the California Board of Accountancy. (Lincoln is based in California.)

And if that's not enough, Arizona is still hemorrhaging economically, ranking in the top handful of states in foreclosed real estate and 48th in the nation in employment growth.

Will we ever be able to hold our heads up again?

Appearance unlikely

Don't hold your breath waiting for Arizona's senators to testify before the House Banking Committee on the Keating calamity.

It's an everything or nothing proposition: These guys want all five senators or nobody to share the limelight/blame.

Coordinating such five-way action has about as much chance of succeeding as Congress' doing something statesmanlike on the deficit debacle.

Keating is scheduled to testify Tuesday, though nobody knows for sure that he will.

Never fear: There are other ways for senators to get their message out. DeConcini has been urged to buy huge chunks of air time to peddle his side of the story directly to the voters.

No decision on that yet, says Mike Crusa, DeConcini's top Arizona guy: "We are looking at different methods of ensuring the general public has an accurate view, from our perspective, of what actually transpired."

Chuckles on Charles

So you think l'affaire Keating is getting big play only here?

Wrong.

Even comedian Jay Leno, guest host of *The Tonight Show*, finds the issue ripe for ridicule.

Leno was on NBC's *Today Show* on Thursday to promote a book he has put together on ludicrous newspaper headlines. He is donating all proceeds to charity.

"I don't get any dough for this," Leno insisted. No expenses, no reimbursements, no nothing.

"Not a Charles Keating-Lincoln Savings deal," he added.

Alas, no grudge match

Hear the gossip on the airwaves about former R&G Publisher Pat Murphy running for governor?

Untrue.

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"Definitely nonsense," says Murphy, in Saudi Arabia last week for a conference of cosmonauts and astronauts to discuss such topics as air quality and space rescue.

"I've too many other interests," the flamboyant ex-publisher said, laughing.

"I don't think I could win even if I tried. And if I were elected, I would ask for a recount."

Relax, Ev.

Looks like a winner

It's sad commentary, but Americans apparently choose their elected leaders the same way they buy vegetables — by appearance.

At least that's what a study by a University of California professor says. A UC-Irvine prof asked 700 people to rank photos of politicians on such characteristics as competence, trustworthiness, leadership and demeanor, and guess what: The best-looking, best-dressed candidates got the best marks.

By altering hair styles, clothing and makeup in the photos, Professor Shawn Rosenberg was able to jack ratings up or down by 20 percentage points, according to the *Los Angeles Times.*

Candidates, take note: Smiles, conservative dress, thin lips and widow's peaks are in. Baldness and thick eyebrows are out.

And voters are very picky about eye shape: A rounded upper eyelid with a straight lower lid is good. Eyes not markedly curved, or curved equally on the top and bottom, are bad.

"I'm disturbed, yes. But surprised, no," Rosenberg said.

"What people are doing is saying, 'I don't really understand politics, so let me look at this person and decide if this person is trustworthy and competent.'

Better get out the tweezers, Fife.

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

'Keating 5' denounced by Nader

Senators are termed purchased politicians

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocate Ralph Nader lashed out Wednesday at the senators now known as "the Keating Five," saying their actions in behalf of Phoenix developer Charles H Keating Jr. are "the embodiment of everything that's wrong with politics today."

Nader lambasted Sen. Dennis DeConcini, D-Ariz., for sponsoring a bill he said would help Keating and charged the five with abdicating their responsibilities to the public.

"As we are all learning, Keating was aided in his scheme by a panoply of purchased politicians who cared more about a major contributor to their campaign-finance war chests than their constituents," Nader said in his press conference.

Ralph Nader / Says the actions of "the Keating Five" are "the embodiment of everything that's wrong with politics today."

The Keating Five met twice in April with federal regulators investigating Keating's former thrift, Lincoln Savings and Loan of California. The group consists of Sens. DeConcini; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

Although Nader said the senators are culpable in the collapse of Keating's thrift, he singled out DeConcini as the "spear carrier" for Keating.

Nader charged that DeConcini is sponsoring a bill that would weaken the nation's racketeering statutes. The measure, which will be voted on today by the Senate Judiciary Committee, would help Keating with civil suits he is facing, Nader said.

"Now the ringleader of the Keating Five, Senator DeConcini, clearly the most shamelessly shameless of all five, is responding to the swirling controversy by pushing a bill that would weaken the corporate-crime laws, that would gut the very law used by regulators and victims against his friend Charles Keating," Nader said.

"I guess Senator DeConcini wants to be known as the former senator from Arizona."

DeConcini has touted his bill as a overhaul of the nation's Racketeer Influenced and Corrupt Organization Act.

But he said it is not designed to help Keating. He pointed out that he has sponsored or supported such legislation since 1984, long before Keating faced any troubles or lawsuits.

And he issued a statement Wednesday saying that the bill would not affect government efforts to recover from Keating more than $1 billion in losses at Lincoln before it

— See DECONCINI, page B3

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DeConcini is called Keating 'spear carrier'

DECONCINI, *from page B1*

was seized April 14.

A major issue in the debate over the bill is an original provision that would have limited how much money could be recovered from Keating through a racketeering lawsuit.

Although current law allows for plaintiffs to collect triple the amount of money lost, the DeConcini bill would allow the recovery of only "actual damages."

As it was first written, that limit would have been applied retroactively, meaning that it would have affected lawsuits pending against Keating.

But DeConcini decided in September to remove that portion. As it is written now, only cases that were filed after the measure became law would be affected.

Nader said, however, that corporate lobbyists want the bill rewritten to include the retroactive provision. He released a study saying that Judiciary Committee members, including DeConcini, have "been showered" with cash contributions from lobbyists.

According to the study, compiled by Public Citizen, a Nader group that monitors Congress, DeConcini received $213,450 in such contributions from 1983 through last year. Those contributions came from political-action committees that would be affected by a change in the racketeering act, including firms and trade associations for accountants, savings and loans and banking and insurance interests.

Those contributions do not include $48,000 that DeConcini had received from Keating, Keating's family and his business associates. DeConcini returned the money to the donors after the government alleged in a $1.1 billion civil suit against Keating that the financier had diverted money from Lincoln for political and other causes.

Nader said nearly $1.5 million from lobbyists has poured into the campaign funds of Senate Judiciary Committee members.

"What do you think the lobbyists are putting money into the senator's campaigns for?" he asked. "To preserve the original parchment of the U.S. Constitution?"

Nader also said the other senators among the Keating Five should return contributions received from Keating sources.

Riegle returned $66,100 last year. But the others, including McCain, who received $112,000, have said they will keep the contributions, pending the outcome of the court case.

Keating is the subject of several investigations, and the senators' meeting in April 1987 to discuss Lincoln with Edwin Gray, then the head of the Federal Home Loan Bank Board, is now the subject of an FBI probe.

In addition, the House Banking Committee is conducting hearings into the Lincoln collapse. Keating is expected to testify Tuesday.

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'THE KEATING FIVE'

John McCain · Dennis DeConcini · John Glenn · Alan Cranston · Donald Riegle

Ethics panel gives go-ahead to 'Keating 5' investigation

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — In its largest case ever, the Senate Ethics Committee agreed Friday to hire a special outside counsel to investigate the involvement of five U.S. senators, including both of Arizona's, in the Lincoln Savings and Loan debacle.

After a two-hour meeting behind closed doors Friday, the panel unanimously agreed to hire Washington, D.C., attorney Robert S. Bennett. He will determine whether the senators improperly interceded two years ago in behalf of Charles H Keating Jr., Lincoln's former owner and a major campaign contributor to all five.

Bennett also will look into allegations that Sen. Alfonse D'Amato, R-N.Y., used his influence to improperly obtain federal housing grants for associates.

The panel's action in the Keating case is unprecedented ~~in the~~ committee's 12-year history. Never before have so many senators been involved in a single investigation.

"The action does not suggest in any way that the committee has made any decision or found any indication of wrongdoing, or that a violation of any rule or law has occurred," committee Chairman Howell Heflin, D-Ala., said.

"In both cases, the committee's decision to retain outside counsel is made solely to assist in obtaining and

— See 'KEATING 5,' page A13

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FBI/DOJ

'Keating 5' probe gets go-ahead from panel

— 'KEATING 5,' *from page A1*

analyzing additional information."

The senators, known as "the Keating Five," have said they did nothing wrong. The five are Democrat Dennis DeConcini and Republican John McCain, both of Arizona; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The FBI is studying the actions of the senators, and a source told *The Arizona Republic* that federal agents are basing part of their investigation on a confidential memo that DeConcini's office prepared two years ago in Keating's behalf.

The Republic obtained the memo last month. Former Federal Home Loan Bank Board Chairman Edwin Gray said it proves DeConcini tried to put a deal for Keating with the government.

The document is headed, "What American Continental Wants From Gray For Concessions." It explained what Keating's American Continental Corp. of Phoenix was willing to do if Gray's agency would make concessions to help Lincoln.

DeConcini denied that the document was part of a deal to get federal regulators off Lincoln's back.

American Continental was Lincoln's parent firm before the government seized the California thrift April 14.

The Senate and FBI inquiries are part of expanding government investigations into the collapse of Lincoln Savings and whether Keating bought favors from the senators with campaign contributions.

The scandal threatens to bring down the political careers of senators with a combined total of 73 years in Congress.

The affair already is consuming much of their time as they try to weather the political fallout. Ethics-panel members said their review, which stems from a call by citizens lobby Common Cause last month, could take months.

They added that Bennett will analyze information but emphasized that he is not an independent prosecutor.

The panel also said it has not yet taken the formal step of initiating a "preliminary inquiry" into the matter. That is the first of three formal steps the panel may take. The second is an "initial review" and the third is a full-scale investigation.

At a press conference Friday on an unrelated topic, DeConcini and McCain both said they welcome the Ethics Committee probe because they believed they will be cleared.

McCain added that his actions in Keating's behalf had nothing to do with $112,000 in campaign contributions, saying that he would have done the same for any large employer in Arizona.

"I can say that categorically," McCain said.

"I can say that absolutely and totally categorically, that I would do exactly the same thing for a person or a company that is a major economic factor."

But, McCain added, the appearance of two 1987 meetings in which the senators asked regulators why they were taking so long to examine Lincoln's books was "very bad." He said he would not participate in such sessions again.

McCain is the only one of the five who has yet to file a report with the ethics panel explaining his actions in Keating's behalf. He is expected to do that soon.

Glenn said he did nothing improper. He added that Keating had sought support for the appointment of two associates, one to a judgeship and a second, Lee Henkel, to the bank board. Glenn said he refused to help.

Keating is expected to tell his side of the story Tuesday when he testifies before the House Banking Committee.

M. Danny Wall, head of the bank board's successor agency, the Office of Thrift Supervision, also is scheduled to appear, despite rumblings that President Bush may try to fire him over the Lincoln fiasco.

Wall has been accused by House Banking Committee Chairman Henry Gonzalez, D-Texas, of lax regulation that led to the failure of Lincoln, which is expected to be the nation's costliest S&L collapse. Taxpayers may end up footing a bill of $1.5 billion to $2.5 billion in the Lincoln case.

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(Mount Clipping in Space Below)

Raid takes hotels from Keating

Phoenician, Crescent seized

By Lisa Morrell and Andy Hall
The Arizona Republic

In a pre-dawn move, more than 50 federal thrift managers, FBI agents and private security guards ousted Charles H Keating Jr.'s regime from its "haven of peace" at the Phoenician Resort and the Crescent Hotel on Thursday.

The action by the Federal Deposit Insurance Corp., begun at 1:30 a.m., broke Keating's last hold on his Lincoln Savings and Loan, which regulators seized in April. A Lincoln subsidiary owns a majority stake in the hotels.

Brad Boland, a spokesmen for Lincoln's former parent company, Phoenix-based American Continental Corp., condemned the federal takeover as "Gestapo tactics." Keating representatives also accused federal officials of improperly pressuring Keating's Kuwaiti business partners into allowing the management change.

Keating did not return phone calls.

He and 23 other employees were fired from their jobs at The Phoenician, a 605-room golf, tennis and spa complex sunk into Camelback Mountain in Phoenix, and from the 34?-room Crescent Hotel in north

— See PHOENICIAN, page A2

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Phoenician, Crescent seized

PHOENICIAN, from page A1

Phoenix. The hotels employ about 1,500 people.

The fired employees included Keating's wife, Mary Elaine Keating, two daughters and two sons-in-law.

Keating drew no salary as manager of The Phoenician, but he continues to receive a $500,000-a-year salary as chairman of American Continental.

Keating is scheduled to testify Tuesday before the House Banking Committee in its investigation of the $2 billion collapse of Lincoln. Boland said Thursday that Keating will appear but has not yet decided whether to testify.

The hotel takeover was made possible after Keating's Kuwaiti partners dropped their support of Keating and allowed federal officials to appoint new hotel managers.

The federal government had been trying to take control of The Phoenician and The Crescent since April, after S&L regulators seized Lincoln Savings, which holds a 55 percent stake in the hotels through a subsidiary. The Kuwait Investment Office of London, a group of Kuwaiti investors based in that city, owns the rest.

Without the consent of holders of at least 75 percent of the stock, no management changes were possible.

The FDIC got the Kuwaitis' cooperation within the past two days, said Mark Randall, managing agent for the Federal Deposit Insurance Corp., which oversees Lincoln. He declined to discuss why the Kuwaitis changed their minds.

"We believe that the change in the management .... will help maximize the value of our investment," Randall said.

He said the FDIC seized the hotels because of "overall dissatisfaction" with the corporate management of Keating. The two hotels represent a $300 million investment, most of that in The Phoenician.

But Boland and American Continental attorneys James Feder and A. Melvin McDonald said that the Kuwaitis agreed to fire Keating only because the U.S. government pressured the Kuwaiti government. The three men would not supply details.

Feder said the Office of Thrift Supervision, which oversees the savings and loan industry for the FDIC, had subpoenaed all records regarding the hotels last week. That move, he said, likely irritated the Kuwaitis, because it opened the possibility that their investment could be exposed to public scrutiny.

Mike Smith/The Arizona Republic

Hans Turnovszkys, who has more than 25 years' experience in the hotel business, is the new manager of The Phoenician and the Crescent Hotel.

The federal takeover, which caught Keating's management team by surprise, began as about a dozen federal officials and more than 40 support personnel entered The Phoenician at 1:30 a.m. Thursday.

They sealed off "sensitive" areas, such as the control room for computer operations and the executive offices, said Herbert Chin, a government official who is overseeing the management change. Locks were changed on the office doors, including those of fired employees.

Messengers delivered letters to the homes of the fired employees at about 2 a.m., telling them they no longer had jobs. The employees were Keating family members or transplanted American Continental workers who "are not professional hotel people," Chin said.

McDonald, the American Continental attorney, said Keating spent many of his days at an office in The Phoenician, working on business matters. McDonald said the loss of the hotels would hurt Keating.

"There's no question, that was his life," McDonald said. "He loved that resort. That was to him and his family a haven of peace. It was a culmination of a dream. Every feature, every touch there, embodied their creativity."

McDonald lambasted the federal officials' tactics.

"Rather than go like gentlemen in the middle of the day, they went like storm troopers in the middle of the night," he said.

"It was literally a coup d'etat."

Randall said that the timing was chosen because "both hotels are full and our primary concern in doing this was to minimize disruption to the patrons."

McDonald and Feder said the takeover would harm the hotels because they were making money under Keating's management.

"I think they (the federal regulators) are hellbent on making The Phoenician into another Motel Six," McDonald said.

Among those ousted were the general managers of the hotels, Michael Kelly of The Phoenician and Keating's son-in-law Robert Hubbard Jr. of The Crescent.

In their place, the FDIC hired Hans Turnovszkys, a hotelier with more than 25 years of experience in the hotel industry around the world. He comes from the Lodge at Vail in Vail, Colo.

Turnovszkys, 47, arrived in Phoenix late Tuesday night.

He met with employees of The Phoenician on Thursday and will meet with Crescent employees today.

By Thursday afternoon, hotel employees assured guests and callers that it was business as usual and referred calls to the FDIC officials and public-relations agents there.

A fashion show was being held in The Phoenician's elaborate ballroom. Guests relaxing in the hotel's main lobby said they weren't worried about how the change might affect the service.

One department head said a letter was taped to his front door at home early Thursday morning, telling him that he no longer had a job at The Phoenician. An earlier frantic call from his office sent him to The Phoenician about 2:30 a.m. People were "panicking and crying." Some feared they would be fired by the federal officials, he said.

John Akins, an events organizer at The Phoenician, said Thursday that at 2 a.m., "we got word that the (feds) were storming the Bastille, so we came down as extra help" to set up for a conference that his client was holding at the resort.

When Akins and his crew arrived, "we knew something was wrong because we saw Budget vans with sleeping men with earphones."

"All the feds looked real fatigued today," he said.

The Phoenician is a 605-room resort nestled against Camelback Mountain. It was described as a "haven of peace" for Charles H Keating Jr. and his family.

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

'The Keating Five': A fair trial, boys, then string 'em up!

According to the prevailing mythology, an encounter with five U.S. senators — four Democrats and a freshman Republican — threw Reaganite regulators into such a tizzy two years ago that they all but abandoned a smoothly running investigation of Lincoln Savings and Loan and its operator, Charles H Keating, the Phoenix moralist and manipulator.

The senators, dubbed "the Keating five" by spin-control artists, have become the principal scapegoats in the nation's savings and loan fiasco.

May I may offer a modest dissent from the baying of the mob? It is chasing the wrong quarry.

No one doubts that Mr. Keating fended off the investigators who came poking around Lincoln Savings.

Somehow he got a government audit shifted from San Francisco to Washington, where officials were more sympathetic.

He actually had the White House put one of his business associates, Lee Henkel Jr., on the Federal Home Loan Bank Board.

From both Alan Greenspan, the respected economist and present head of the Federal Reserve Board, and Arthur Young & Co., the prestigious accounting firm since reborn as Young & Ernst, he got glowing endorsements of Lincoln's precarious investment practices.

Thus armed, he then stymied an investigation by the Securities and Exchange Commission, whose curiosity Lincoln also had aroused.

All this is clear.

What is not clear is that the meetings with "the Keating Five" — the focus of so much blustery attention — threw the government bloodhounds off the scent.

The first meeting was with Ed Gray, the former gubernatorial press secretary whom Ronald Reagan picked to head the Federal Home Loan Bank Board.

Mr. Gray says the senators tried to muscle through a deal on Mr. Keating's behalf.

The senators deny it, and their denial finds corroboration in notes taken during a subsequent meeting with bank board regulators — notes taken by Mr. Gray's own man. They show that the senators made no demands, asked for no favors, and carefully backed away from sensitive areas.

Why would five U.S. senators lean on Ed Gray, but behave with such rectitude toward his subordinates? It makes no sense.

These two meetings, we are asked to believe, led the bank board to remove its inquiry from the jurisdiction of the San Francisco office, placing it in gentler hands.

That so? The fact is the decision to

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move the investigation was made by W. Danny Wall, Mr. Gray's successor — a man with whom the senators never met.

Also, Mr. Gray says he learned — we are not told from whom — that Arizona's Sen. Dennis DeConcini made a horse trade with the White House, swapping support for *contra* aid for Mr. Henkel's appointment to the bank board.

Yet testimony out of Mr. Gray's own mouth confirms that Mr. Henkel was already the choice of Don Regan, the president's chief of staff and White House majordomo.

Why, for crying out loud, would Sen. DeConcini need to dicker with the White House over an appointment the White House already was pushing?

I spent much of last week and the week before in Washington, renewing old ties.

I heard Mr. Gray testify before the House Banking Committee. I talked with a large number of Washington insiders, in and out of Congress.

Everybody I spoke with agreed that the five senators had been imprudent, even foolhardy. But everybody also agreed that going to bat for constituents is what members of Congress do — not occasionally, but all the time.

Such "interference" makes the bureaucrats squirm, especially when they are haunted by the knowledge that they badly bungled the Keating investigation two years ago.

So they roar about "the Keating Five," hoping this may:

1. Obscure their failure to press the Keating investigation when it counted.

2. Burn the five senators so badly that other members of Congress will be discouraged from intervening on behalf of their constituents.

It may work. If it does, pray you never have a problem with your veteran's benefits.

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(Mount Clipping in Space Below)

Cranston aide took Keating trip

By David Willman
Knight-Ridder

WASHINGTON — California Sen. Alan Cranston's top banking-affairs aide took a trip partially paid for by Phoenix developer Charles H Keating Jr. within one week after Cranston interceded in 1987 with federal regulators in behalf of Keating's Lincoln Savings and Loan, records and interviews show.

The Cranston aide, Carolyn D. Jordan, in March urged the office of William Crawford, California savings and loan commissioner, to support Keating's last-ditch proposal to sell Lincoln, according to state officials. The thrift was seized by federal regulators April 14, 1989.

Cranston approved Jordan's 1987 trip from Washington, D.C., to Phoenix in 1987, the senator said through a spokesman Wednesday.

On April 2, 1987, Cranston and three other senators met with the nation's top S&L regulator, Edwin Gray, to discuss the plight of Keating's Lincoln Savings and Loan Association, based in Orange County in southern California.

On April 9, 1987, Cranston, a Democrat, and four other senators — Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; John McCain, R-Ariz.; and John Glenn, D-Ohio — met with other officials from the Federal Home Loan Bank Board's office in San Francisco.

The regulators warned that Lincoln was operated in an unsound and possibly criminal fashion. The taxpayer bailout of Lincoln is expected to cost $2.1 billion, the nation's most expensive.

Records Jordan filed last year with the Senate Ethics Committee show that her trip began April 13, 1987, and ended April 20, 1987. She listed Keating's American Continental Corp., parent firm of his S&L, as having paid for her lodging.

According to Senate rules, Senate aides are required to disclose transportation, food, lodging and entertainment valued at $250 or more.

On the same form, she wrote that her air fare, with a "stop in Phoenix," was paid for by an industry S&L group called the "Thrift and Loans Assoc. Calif." That group could not be found as of Wednesday.

Jordan said Keating's company paid for her lodging and meals for two nights, but disclosure forms reported only free lodging during that week.

Asked whether Keating's company paid for all of her meals, Jordan said, "Oh yes, of course. You think we paid ourselves? Be serious. We do these things all the time. There's nothing unusual about it."

Jordan said she was accompanied on her trip to Phoenix by "one or two" House aides and another Senate aide.

Keating representatives declined to comment.

The Senate Ethics Committee and the Justice Department are investigating the actions of Cranston and the other four senators. Keating is facing federal investigations.

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(Mount Clipping in Space Below)

We must not intimidate senators

Editor:

There has been much discussion recently regarding the activities of Charles H Keating Jr. and Lincoln Savings and Loan. I am not writing to proclaim Mr. Keating's innocence or guilt. I'm concerned about a much larger problem that could have devastating results on our system of checks and balances.

It is imperative that we feel free to call upon our senators to investigate the bureaucratic process, and our senators need to feel free to act on our behalf when there is a possibility we have been subjected to wrong-doing. We cannot allow our senators to be called on the carpet when citizens ask them for assistance with a problem or when requested to check into the bureaucratic process. Some of the press chose to label this treatment as "favors," or they suggest that a person is attempting to skirt the process. In most cases, this is not justified.

Part of the responsibility of senators is to make sure their constituents are being fairly treated. As in any business, the government has good and bad employees, and there are situations that need to be examined. If these employees ever feel they have a free hand and are unanswerable to anyone, we will have created an untenable situation. We cannot afford to have our senators apprehensive or cautious when protecting our rights.

MIKE INGRAM
Chandler

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Forget vow on newsletter, Dear Senator?

For weeks, readers have been sending me copies of U.S. Sen. John McCain's latest newsletter. It is dated Oct. 18 and was mailed from his office in Washington to what appears to be thousands of people in Arizona.

McCain addresses his message to "Dear Friend," which is is only right, as it appears that he spent thousands of taxpayer dollars just to send it to us.

The newsletter describes what McCain calls a "major victory." This occurred, he said, when the Senate "voted to adopt my legislation to repeal the controversial surtax (imposed by last year's Medicare Catastrophic Coverage Act) and keep those benefits of most importance to seniors."

E.J. MONTINI
Republic Columnist

It goes on for three pages.

On the fourth page is a photocopy of an article from *USA Today* with the headline "Ex-POW is behind rescue plan."

The story, which also is about the Medicare bill, begins, as most stories about McCain begin, with his prisoner-of-war experience, which the senator says he would never use for political gain.

This time, he said, "I do have some experience with being cold and hungry and sick, and certainly not having control of my own life. I hope that this has given me some sensitivity for the less fortunate in our society."

Skeptical of 'sensitivity'

The reason so many copies were then sent to me is that some of McCain's "dear friends" had difficulty buying his "sensitivity for the less fortunate" line.

As I said, his newsletter was mailed on Oct. 18.

On Oct. 16, you may recall, McCain spent the morning in Phoenix trying to explain at a news conference his a great sensitivity for one of the *most* fortunate in our society — multimillionaire Charles H Keating Jr.

McCain tried to explain why he interceded in Keating's behalf with federal regulators; why he took $112,000 in campaign contributions from Keating; why he and his family took trips to the Bahamas on Keating's plane, then stayed at Keating's house; why his wife had a $359,000 business deal with Keating.

As you can imagine, all that is difficult to explain. So in his newsletter, McCain tried this approach: Ignore it.

While the headline on McCain's newsletter read, "Ex-POW is behind rescue plan," the headlines in local newspapers read:

"McCain is scrambling to preserve reputation."

"Probe of McCain, DeConcini urged."

"Constituents wait for senators' answers."

"McCain, DeConcini lose ground in poll amid Keating woes."

And so on.

There is no mention of Keating in McCain's newsletter. A messy relationship with a greedy rich guy is not what McCain wants his constituents to dwell on. It is not what he wants them to remember.

Memory, however, is difficult to control.

Vowed to stop producing newsletters

For example, McCain's newsletter triggered the memory of Ron Larrabee, a "dear friend" of McCain from Glendale, who is himself a Vietnam War vet. Larrabee remembered that in 1987, McCain said that he would produce no more newsletters.

I didn't remember that but checked the newspaper's files and found that it is true. McCain said back then that he would save taxpayers thousands of dollars by not producing newsletters. He urged other senators and representatives to do the same.

In an editorial, *The Arizona Republic* praised his action.

At the time, McCain said, "I asked for the research to be done on what it would cost our Senate office to send out a newsletter. They told us it would cost $114,000 to produce and another $35,000 for postage."

Then he said, "We should make every effort to reduce deficits, and this is one place where we can save a little money."

I wonder if McCain forgot about that promise.

Memory, as I said, is difficult to control.

Or could it be that, in 1987, McCain was feeling smug. These days, perhaps the idea of spending lots of our money to convince us that he's not wasting our money doesn't seem extravagant. Just another way to express his concern for the less fortunate.

Over the past few days, I've called the senator's office in Washington, hoping to talk to ~~him or one of his aides~~ about his change of heart on the matter of newsletters. No one ever got back to me.

Do you think they forgot?

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Crime lawyer may probe 'the Keating 5'

By Sam Stanton
and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee is poised to hire a prominent criminal attorney to investigate five U.S. senators, including Arizona's Dennis DeConcini and John McCain, and their involvement with Phoenix developer Charles H. Keating Jr., sources say.

The move, which could come as early as today when the full committee meets, would mark the first time that so many senators have been probed by the panel at the same time.

In addition to DeConcini, a Democrat, and McCain, a Republican, the senators are Democrats Alan Cranston of Califor-

—See ATTORNEY, page A10

Attorney may probe 'Keating 5'

ATTORNEY, from page A1

nia, Don Riegle of Michigan and John Glenn of Ohio.

The panel's expected action also increases the threat to each man's political future over the Lincoln Savings and Loan Association crisis and eventually could lead to their ouster from the Senate.

The S&L crisis played a minor role in the toppling of House Speaker Jim Wright, D-Texas, earlier this year.

The matter is being taken so seriously that two of the five senators have hired criminal attorneys to represent them.

Neither of Arizona's senators has taken such a step, although McCain has hired Jan Baran, a prominent election-law attorney, to help with his request for a Federal Election Commission probe of the Keating affair.

DeConcini and McCain issued separate statements Thursday evening in which they said they "welcome" the expanded probe by the ethics panel, but both said the committee had not contacted them.

"I would welcome anything that will establish the facts," said DeConcini, who told the panel in a long report last month that he had done nothing improper.

McCain, a first-term Republican, has not yet responded to the ethics panel's request for an explanation of each senator's behavior in Keating's behalf. But he said he is "confident that an investigation will vindicate my repeated statements that I never abused my office nor took actions that were improper."

The Ethics Committee has asked former Assistant U.S. Attorney Robert Bennett, a 50-year-old Washington attorney who specializes in white-collar-crime cases, to launch a "preliminary inquiry" into the actions of the senators, who have come to be known as "the Keating Five."

Bennett declined to comment Thursday when reached at home.

However, sources told *The Arizona Republic* that the committee had asked Bennett whether he would lead the Senate investigation. He accepted, sources said, but it is uncertain how soon the committee will make a formal decision.

Bennett already has been retained by the committee to investigate pending allegations of impropriety against Sen. David Durenberger, D-Minn. He also handled the committee's 1980 Abscam probe of Sen. Harrison Williams, D-N.J., who resigned in 1982.

Spokesmen for the ethics panel said they could not comment on whether Bennett, brother of drug czar William Bennett, would be retained, citing the Senate's confidentiality rules. If the committee makes a formal decision today, it will release a public statement confirming its action.

The panel, known formally as the Senate Select Committee on Ethics, launched a preliminary review last month of allegations that the senators took extraordinary steps to scuttle a government clampdown on Lincoln Savings and Loan, Keating's former thrift.

A "preliminary inquiry" is the first of three formal steps that the ethics panel takes when probing the actions of a senator. The second step is called an "initial review," and means only that the committee believes "it is appropriate to obtain additional information," the committee's rules say.

The third and final step is a formal investigation and can involve formal hearings.

The main issue is whether the senators acted improperly when they met with regulators in 1987 to discuss a government examination of Lincoln.

Both of the meetings were highly unusual, were held in DeConcini's office, and now are the subject of an FBI probe and a House Banking Committee investigation.

The first meeting was held April 2, 1987, with Edwin Gray, chairman of the Federal Home Loan Bank Board.

Gray told the House banking panel last week that DeConcini tried to cut a deal with him to back off of his probe of Lincoln in exchange for concessions by Keating.

DeConcini and the other senators have denied that claim.

The second meeting was held a week later with the San Francisco regulators who were probing Lincoln's books.

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(Mount Clipping in Space Below)

McCain vows fight for law on major ills

Would rescue some provisions

The Washington Post

WASHINGTON — Sen. John McCain, R-Ariz., plans a Senate floor fight to save parts of the 1988 law that protects the elderly against medical costs for catastrophic illnesses, defying a House-Senate conference agreement Friday night to repeal the entire law, except for a handful of Medicaid provisions for the poor.

After Senate Finance Committee conferees reluctantly accepted House insistence on repeal, McCain said he will use every parliamentary device available to keep some benefits in effect, while repealing the surtax on Medicare beneficiaries that has been bitterly criticized by the elderly and McCain since the start of the year.

The floor fight over the catastrophic-ills insurance program could begin today when the House and the Senate are scheduled to meet in a rare Sunday session as they race to complete their business and adjourn for the year before Thanksgiving.

John McCain / Many House Republicans fear that salvaging part of the catastrophic-illness program would be too costly.

The lawmakers also must deal with a $14 billion deficit-reduction bill that must be passed in order to lift the $16 billion in automatic across-the-board budget cuts imposed in October under the Gramm-Rudman-Hollings budget law.

Early Saturday morning, House and Senate negotiators tentatively agreed on several revenue proposals that are a key component of the deficit-reduction legislation, known as a reconciliation bill.

However, it is unclear whether the measure will pass muster with President Bush, who has demanded that Congress provide $14 billion in "real" deficit reductions without resorting to the kind of accounting gimmicks that have become a staple of the reconciliation process.

In the Senate, Minority Leader Bob Dole, R-Kan., said he will back McCain's effort to salvage part of the catastrophic-illness program.

McCain's objective is for the Senate to reject the conference report and send back to the House a revised package, without the surtax, to preserve the law's increases in Medicare hospital benefits and a few other relatively minor provisions while dropping costly new benefits involving out-of-pocket costs for prescription drugs and doctor bills.

The one point of consensus in Congress is that the surtax must be repealed before adjournment to prevent another firestorm of anger from the elderly.

However, many House Republicans fear that, even with the surtax repealed and the drug and doctor-bill benefits dropped, McCain's approach would be too costly.

On the other hand, many Democrats, including Reps. Pete Stark and Henry Waxman of California, two of the 1988 law's chief sponsors, said that without the drug and doctor-bill provisions, the law would provide only meager benefits to the elderly and would not be worth the cost.

The Bush administration has said it would prefer to keep the 1988 law in effect, but has not strongly defended it or attempted to work out a compromise.

Under intense pressure from the elderly, the House voted 360-66 last month to repeal the law, which had been hailed on passage 16 months ago as the greatest advance in Medicare since the program was enacted in 1965.

It caused a storm of resentment from the elderly after they learned that to help fund it, they would have to pay a surtax based on income, reaching up to $800 per person for 1989 for the more affluent.

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Lawmaker: Keating testimony not needed

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5th Amendment invoked at hearing

By Sean Griffin
The Phoenix Gazette

WASHINGTON — Charles H Keating Jr.'s testimony is not necessary for the House banking committee to root out the causes of the scandal involving Keating's Lincoln Savings and Loan Association, the committee's chairman said Tuesday.

Rep. Henry Gonzalez, D-Texas, said the committee has tens of thousands of reports, memorandums and records and is continuing to compile and evaluate material it has subpoenaed — including reams of paper from Lincoln and its parent, Phoenix-based American Continental Corp.

Gonzalez's comments were made at the conclusion of a grueling 10½-hour session that came to a climax hours earlier when Keating invoked his Fifth Amendment right against self-incrimination.

"I have no testimony to give today, sir," Keating told Gonzalez.

"On the advice of counsel, I respectfully exercise my constitutional privilege and prerogative and decline to answer questions here today," Keating said.

Asked if he was declining to answer any questions under the Fifth Amendment, Keating replied, "That is correct."

Keating left no electronic record of his remarks. He invoked his right under a House rule barring cameras and recording devices from the room.

The move caused a near-riot as he left the crowded committee room.

With armies of ejected video camera operators, photographers, and reporters waiting for him outside in the jammed and narrow corridors, a contingent of lawyers, bodyguards and Capitol police officers maneuvered Keating through the hordes only with great difficulty.

At least one reporter was knocked down during the chaos as the phalanx pushed through the crowds in front of it and those behind surged to catch up with Keating in the hope he would make a statement.

Keating had also sought to testify in executive session, requiring that the hearing room be cleared of everyone but committee members, Keating and his attorneys, but Keating withdrew the request after the committee bogged down in confusion about how to act on his request.

See ■ Lincoln, A-6

Inside

Highlights: A breakdown of Tuesday's testimony. **A-7**

Regulators: American Continental lawyer's boxes of underwear and socks searched during hotel takeover. **A-6**

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Lincoln

From A-1

Keating provided a written statement to reporters saying, in part, that he might be willing to testify later before the committee.

Earlier, Rep. Jim Leach, R-Iowa, called Keating "an economic pornographer ... a financiopath of obscene proportions."

Gonzalez repeated his call for the resignation of M. Danny Wall, director of the Office of Thrift Supervision.

Gonzalez said nothing in Wall's testimony Tuesday altered his conviction that Wall's failure to shut down Lincoln for two years after the thrift's regulators recommended doing so was largely responsible for the cost of the $2.5 billion Lincoln bailout.

In addition, Gonzalez said he might legally challenge Congress' decision to exempt Wall's position from Senate confirmation in approving the S&L bailout bill last summer.

If the challenge is upheld, Wall would be serving illegally as OTS director and would be required to resign or — if nominated by President Bush, which Gonzalez deemed unlikely — face Senate confirmation.

The often-contentious atmosphere at Tuesday's hearing brought into the spotlight two figures in the scandal: Rosemary Stewart and Darrel Dochow, who deflected a large amount of the committee's criticisms from Wall, their supervisor.

Along with Wall, the two defended their actions in 1987 to delay acting on the allegations of unsound and unsafe practices at Lincoln until they could build a bulletproof legal case.

Stewart who was director of the Federal Home Loan Bank Board's enforcement office, contended that the San Francisco Home Loan Bank's examination of Lincoln's financial condition in 1986 lacked the facts necessary to build a legal case for conservatorship or receivership, as the San Francisco regulators had recommended.

A new examination was ordered and Stewart began to prepare the case for a cease-and-desist order — a formal court order she estimated could take a year or two to bring about.

At the same time, as the second examination began to confirm many of the findings of the San Francisco district examiners, Stewart, Dochow (who was Wall's chief of staff) and Wall said they were able to negotiate a supervisory agreement with Keating in May 1988. One of the provisions of the agreement required Keating to guarantee unlimited access of thrift examiners to Lincoln and American Continental records.

"It has got to be in hindsight, for Mr. Keating, his Waterloo," Wall said.

By permitting free access, Wall said his office was able to make the case for taking over Lincoln's operations, which it did April 14, one day after American Continental sought protection from creditors under the bankruptcy laws.

Wall said the "smoking gun" in the Keating affair was revealed in an Aug. 4, 1987, report by outside auditors who raised questions about a tax-sharing agreement between Lincoln and American Continental that had been approved by the San Francisco Home Loan Bank.

The report, by Kenneth Leventhal and Co., said the agreement required Lincoln to pay its entire tax obligation to American Continental each year.

But since thrifts typically have large, deferred tax liabilities, the firm concluded, "This agreement effectively provides (American Continental) with a cash payment for taxes which it will not be remitting to the IRS currently."

Susan Gallinger, director of the state Department of Insurance, talks with Sen. Bill DeLong, R-Tucson, during Tuesday's session.

John Blackmer, *The Phoenix Gazette*

Charles H Keating Jr. waits to testify.

Photographers banned at Keating's request

Phoenix millionaire Charles H Keating Jr. invoked House rules to have television cameras and still photographers banished from the House banking committee hearing before citing his Fifth Amendment right against self-incrimination. The exchange between Keating and Rep. Henry Gonzalez, D-Texas, banking committee chairman, went like this:

Gonzalez: "The witness may proceed with his request."

Keating: "Mr. Chairman."

Gonzalez: "Mr. Keating."

Keating: "I respectfully request, pursuant to Rule 11F2-211, television broadcasts, video broadcasts, still photography be precluded during my appearance."

Gonzalez: "The witness has asserted his privilege under the Rule 11 clause ... We must insist that all camera lenses be covered immediately, immediately (laughter from crowd). The photographers are in violation of the rules of the House. You must cover your lenses. These are the rules governing the House."

After the cameras were covered:

Keating: "On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege ... and decline to answer questions here today."

John Blackmer, *The Phoenix Gaze*

The hearing room is crowded Tuesday as the House banking committee hears testimony about Lincoln Savings and Loan.

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Ex-chief takes 5th at hearing on Lincoln S&L

By Terry Atlas
Chicago Tribune

WASHINGTON—Embattled Phoenix lawyer Charles H. Keating Jr., who cultivated political influence in Washington while allegedly looting millions of dollars from his California savings and loan, refused Tuesday to answer questions from a congressional committee investigating the costly failure of his institution.

After using a House rule to bar television and still cameras from the House Banking Committee hearing, Keating invoked his constitutional right against self-incrimination. "On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege and decline to answer questions here today," he said.

The brief appearance by Keating, target of federal criminal investigations and a $1.1 billion civil racketeering lawsuit, was the dramatic high point in a 10-hour hearing in which key federal regulators denied that Keating's political connections had influenced their actions.

The nation's top savings and loan regulator, M. Danny Wall, director of the Office of Thrift Supervision, conceded that he and others made some mistakes in the case of Keating's Lincoln Savings and Loan Association. But he also said deception by Lincoln led to the thrift's failure, which will cost taxpayers at least $2.5 billion.

Wall asserted that his actions "were devoid of any political influence. I was not under the spell of Charles Keating."

However, the special nature of Lincoln, which one thrift examiner called "politically dangerous"

AP Laserphoto

Charles H. Keating Jr. refuses to testify on Lincoln S&L at a congressional hearing Tuesday.

in an internal memo released by the committee, was apparent throughout the testimony as names of key lawmakers were linked to Keating.

For instance, Wall disclosed that he received phone calls from two key Democratic senators, Alan Cranston of California and Dennis DeConcini of Arizona, who expressed unusual interest in Keating's plan to sell Lincoln days before federal regulators moved to seize the insolvent thrift April 14. Cranston also requested "sensitive regulatory information" about Lincoln at about that time, according to a memo retrieved from the files of thrift regulators.

And the fifth-ranking Democrat on the Banking

See Lincoln, pg. 8

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Lincoln

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Committee, Rep. Carroll Hubbard Jr. of Kentucky, acknowledged early in the hearing Tuesday that he also had called Wall in early April at the request of former Rep. John Rousselot (R., Calif.), who headed the group whose application to buy Lincoln was rejected by regulators.

The Senate Ethics Committee is looking into whether five senators, including Cranston and DeConcini, improperly interfered with regulators on behalf of Lincoln as far back as 1987 in return for a total of about $1.3 million in campaign contributions arranged by Keating. The FBI reportedly also is scrutinizing the contributions.

Members of the House Banking Committee, their staffs, reporters, government regulators and a few curious tourists crowded into the committee hearing room for a glimpse of Keating, the tanned, lanky and mysterious figure who has become the latest savings and loan executive to symbolize the illicit dealings and political clout of the industry in the 1980s.

Rep. Jim Leach (R., Ia.) said Keating, who led an antiobscenity campaign in Arizona, "appears, by the record, to be an economic pornographer defiling the value of the savings of the elderly and adulterating the safety and soundness of the American financial system."

And a number of committee members said afterward that Keating's unwillingness to testify will make it difficult, if not impossible, to determine why federal regulators didn't take over Lincoln until more than two years after the first signs of major financial trouble and possible wrongdoing at the Irvine, Calif.-based thrift.

After Keating left the hearing room, one of his lawyers distributed a three-page statement in which Keating urged Congress to use its investigation to learn "the facts before engaging in spurious accusation and hollow impeachments of innocent persons."

Keating said he has offered to make available to the committee more than 20 million pages of documents, accumulated as part of pending lawsuits. "If Congress is truly interested in learning what happened to Lincoln and who the real perpetrators were, then it will provide more than mere lip service to its investigation and therefore will spend the enormous amount of time necessary to ferret through the real facts. . . . I am not sure that Congress is up to the task," his statement said.

Keating has contended all along that he and Lincoln were targets of a vendetta by regulators who objected to his aggressive investing in real estate, junk bonds and other risky investments. And in his statement, he predicted that the cost of cleaning up the nationwide savings and loan mess will come to $500 billion—more than three times the $160 billion approved for the task by Congress—which he called an "overwhelming indictment of both past and present" regulation.

Many members of the Banking Committee would likely agree with that assessment, and they expressed stinging criticism of the top thrift regulators who appeared before them earlier in the day.

Leach called Wall the "Neville Chamberlain of financial regulation," referring to the British prime minister who signed a nonaggression pact with Adolf Hitler.

And Rep. Henry Gonzales (D., Tex.), committee chairman, called the Lincoln case an example of "jet age banking up against horse and buggy regulation."

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A classic bill

Editor:

The "ethics-reform" bill currently before our Congress must rate as a classic. On the surface it appears to the all we electorate might ask, all the while masking a seamy back-door salary increases for Congress. This is ethics? Are we to believe that the stewardship rendered by our Arizona delegation, especially our two senators, warrants any salary increase, let alone the nearly 38 percent contained in this "ethics-reform" bill. The total lack of candor on the part of our two senators especially in the Keating situation rates like the classic Nixon line, "I am not a crook." We the electorate must rate as stupid if we allow this level of ethics to go unchallenged. This is the legacy we want for Arizona?

PAUL F MILLER
Phoenix

Dana Summers/The Orlando Sentinel

Consenting politicians make it all legal

Editor:

Five U.S. senators accept large campaign contributions from Charles Keating and associates.

Our former president accepts $2 million from the Japanese within a year of leaving office.

Our U.S. House of Representatives votes itself a pay increase in the name of "reformed ethics."

And, in case anyone failed to notice, the national debt level was quietly raised and our state budget is out of balance.

All of these actions must have been legal, since they are conducted between consenting politicians.

BILL JORDAN
Sun Lakes

Senators and Keating are all culpable

Editor:

Charles Keating's actions as head of Lincoln Savings and Loan were flagrant violations of prudent business practices and ethical conduct for a businessman. Mr. Keating should receive proper justice. Mr. Keating's misuse of institutional funds for his own benefit and personal aggrandizement is equally as serious as those of TV Evangelist Jim Bakker.

Also culpable are the five senators who restrained government regulators from acting against Lincoln in 1987. Sen. Dennis DeConcini stated he was looking out for the interests of his constituents. The DeConcini and Keating families were the only constituents Sen. DeConcini was looking after Sen. DeConcini has previously shown he will put personal gain ahead of his constituents.

The five senators should accept partial responsibility for the harm caused to investors and stockholders in Lincoln They should apologize to their constituents, pay back contributions and other favors and vigorously seek justice for Mr. Keating.

The proper action for Sen. DeConcini is to resign. He has proven once again he does not have the moral responsibility expected of a U.S. senator.

HARLEY FARMER
Scottsdale

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Probe may find pattern of unethical involvement

Editor:

As a former government program administrator I am well aware of the pressures legislators can exert on agencies regarding issues of importance to their political campaign contributors.

The involvement of Sens. John McCain and Dennis DeConcini in the Charles Keating affair is being investigated, but it may be only one of many inappropriate interventions by the two in the administrative and regulatory roles of government agencies. There is little doubt that they pressured the Forest Service and Fish and Wildlife Service in their efforts to circumvent the National Environmental Policy Act and the Endangered Species Act at Mount Graham. There is a need for an investigation of the senators' role in this unfortunate affair Such an investigation could well reveal still another pattern of unethical involvement by our senators.

Perhaps Sens. McCain and DeConcini need to be replaced with representatives having a sense of responsibility to all people and not just to those who fatten their campaign funds or who have the lobbying power.

JACK C. FRASER
Fountain Hills

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McCain tells ethics panel he's innocent

Denies actions to aid Keating were improper

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Seeking to clear his name of the taint of the Lincoln Savings and Loan scandal, Sen. John McCain, R-Ariz., filed a 96-page report Tuesday with the Senate Ethics Committee in which he denied any wrongdoing.

McCain, one of five senators who have been dragged into the controversy because of their efforts in behalf of Lincoln's former owner, Charles H Keating Jr., was the last of the "Keating Five" to respond to the ethics panel's request last month for information.

"Let me state at the outset that I categorically reject any allegation or inference that my conduct or any of my actions were unethical or improper," McCain wrote.

He conceded that he had made "some mistakes" in his failure to report that he had taken about $13,000 in personal airplane trips in 1984-86 at Keating's expense. The senator paid earlier this year for most of the trips.

But he insisted that his involvement in meetings with Federal Home Loan Bank Board members was proper.

McCain also took a veiled swipe at two of his colleagues, Sens. Dennis DeConcini and Alan Cranston, when he wrote that he "never discussed with any federal or state regulator any proposal to purchase Lincoln Savings and Loan."

DeConcini, D-Ariz., and Cranston, D-Calif., have acknowledged that as late as this past spring, they were trying to persuade officials to approve a sale of Lincoln, a California thrift. McCain has said his involvement ended in April 1987.

The other members of the Keating Five are Sens. John Glenn, D-Ohio, and Don Riegle, D-Mich.

All five have denied any wrongdoing.

Last week, the Senate Ethics Committee hired a Washington attorney to look into a complaint by the government watchdog group Common Cause that the five misused their offices in behalf of Keating. The

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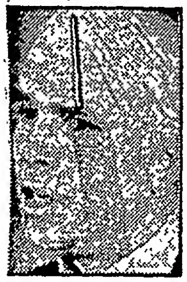

John McCain / "I categorically reject any allegation or inference that my conduct or any of my actions were unethical or improper."

Phoenix financier had been a large contributor to all of the senators.

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators except Riegle, as well as Federal Home Loan Bank Board Chairman Edwin Gray.

The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

McCain has portrayed himself as a virtual bystander in the sessions and maintains that his involvement stemmed from the fact that Keating, chairman of Phoenix-based American Continental Corp., is a major employer in Arizona. He said last week that the contributions of $112,000 that Keating raised for his campaigns played no role in his decision to go to the sessions.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln has been seized by the federal government, and the cost of bailing out the insolvent thrift has been estimated at up to $2 billion.

McCain, who often has been mentioned as a potential presidential candidate, has launched an all-out public-relations blitz over the matter, which is being probed by the House, the Senate, the FBI and various government agencies.

Rep. David Dreier, R-Calif., asserted during the House Banking Committee hearing that McCain had been portrayed favorably on Monday evening's *MacNeil-Lehrer Report*, carried on public television. Dreier slammed the other senators as not being as forthcoming as McCain.

That brought sarcastic remarks from Democrats on the panel.

McCain's response to the Ethics Committee contained no new information about his involvement.

And the senator told the panel in his conclusion that he has "every confidence" that it will "clear my name."

"I have committed my adult life to military and public service," wrote McCain, a former Navy pilot and Vietnam War prisoner.

"The three things I cherish most are the love of my family, my honor and the trust bestowed upon me by the people of Arizona."

He vowed to answer any questions about the matter at any time but urged the panel to act quickly and to "publicly confirm that John McCain did not act improperly or abuse the office."

News photographers snap pictures of thrift regulator M. Danny Wall before his testimony. Wall told a congressional panel Tuesday that "my decisions in the Lincoln case were my own. I was not under the spell of Charles Keating."

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(Mount Clipping in Space Below)

Keating saga shifts from quiet Fifth to a swim with sharks

You weren't *really* surprised when Charlie Keating pleaded the Fifth before the House Banking Committee last week, were you?

Just because he had an unprecedented opportunity to tell his story to a national audience and 51 congressmen didn't mean it was to his legal advantage.

The real question, though, is why go to all the trouble of banning all TV cameras and radio microphones if all you're going to do is take the Fifth?

And didn't it strike you as ironic that when KAET-TV went back to its regular program, the show was a documentary on sharks and their eating habits?

Shadow of 'Rule of 9'

The state Senate's infamous "Rule of Nine" reared its ugly head again last week, casting doubts over prospects for meaningful action on Fiscal 2000 tax reform next month.

This, after Senate President Bob Usdane promised the governor and House and Senate leaders in September that he'd abolish the rule.

Usdane pledged to do away with the controversial rule — which requires certain bills to have the support of a majority of the 17-member GOP caucus before going to the floor for debate — in exchange for Democratic help in wrapping up the September special session on a paid King Day, prisons and miscellaneous other issues.

"They said they would not participate in another caucus with the Rule of Nine," Senate Democratic Leader Alan Stephens said of the GOP commitment. "They better resolve this ... or Fiscal 2000 just won't work."

Usdane says it wasn't really the ~~Rule of Nine~~ that scuttled auto-insurance reform last week, because he, as president, could have yanked the measure out of caucus and onto the floor anytime. He simply chose not to.

Sounds like a distinction without a difference.

"We've always said a special session on Fiscal 2000 will follow resolution of the auto-insurance issue, and that still goes," said a top adviser to Gov. Rose Mofford.

Guess who came to dinner

At least the Arizona Civil Liberties Union practices what it preaches.

Any other organization would have been ticked off by pickets marching outside to demand the recall of their dinner's honoree.

But that wasn't the case Nov. 18 at the ACLU's dinner to honor a longtime supporter, Sen. Dennis DeConcini. In fact, ACLU members actually praised the fact that two dozen protesters exercised their constitutional rights and held

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a demonstration outside the dinner at Marriott's Mountain Shadows Resort in Paradise Valley.

"It's a free country," one told *The Republic's* Pamela Manson.

It wouldn't seem like an ACLU dinner without protesters, another said.

DeConcini, by the way, wasn't even there. He got held up by Senate business in Washington.

The protesters mostly were upset over a bill DeConcini sponsored that would ban nine types of "assault rifles." DeConcini has also been under fire for interceding with federal regulators in behalf of Charlie Keating.

Kennedy connection

Phoenix attorney and college prof Dick Mahoney means business with his campaign for secretary of state.

The first-time candidate raised about $5,000 in cash and pledges last week at a fund-raiser in Washington, D.C. About 55 people attended, most of whom are old political buddies of his father, JFK confidant William Mahoney.

"It was a love fest of old John Kennedy and Bobby Kennedy friends," Dick Mahoney said.

Even Sen. Ted Kennedy was on hand.

That brings Mahoney's total to about $27,000 for an election still nearly a year away. He's taking on a fellow Democrat: competent if colorless Secretary of State Jim Shumway.

It'll certainly help pay the rent on Mahoney's Phoenix campaign office, which is already staffed by three full-time workers.

Spotlight on Corbin

Even Attorney General Bob Corbin couldn't escape the penetrating gaze of law-enforcement searchlights when he went deer hunting in southern Arizona earlier this month.

Corbin was sound asleep at his camp site just west of the Huachuca Mountains one pre-dawn Saturday when a helicopter noisily zoomed into the area and hovered just above the tent, flashing its spotlight on the license plate of the Bronco parked nearby.

"It was really something. The tent was shaking and everything," Corbin said. "I guess they're really serious about looking for drug smugglers down there."

He didn't bag a deer, either.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

The Right Man for a Dirty Job

By Paul Gigot

When a final accounting is made for the savings and loan scandal, Dante's Inferno will have a waiting list. The line at Heaven's Gate, on the other hand, may begin and end with Henry Gonzalez.

As chairman of the House Banking Committee, the San Antonio Democrat is responsible for hearings that are providing the first public accounting for $300 billion worth of failed government. In the process, he's done the unthinkable and cast his spotlight not merely on the executive branch, but also on his colleagues in Congress. He's letting the muck fall where it may. Without his persistence, the nation would not be learning all it is about high-stepping banker Charles Keating, his five friends in the Senate, phantom regulator Danny Wall, and influence-peddling-as-usual in Washington.

Is this Congress's Watergate? "I think so," Mr. Gonzalez said in an interview over a 7:45 breakfast last week, only four hours after he'd left the House's last session. "Everybody contributed. The moral laxity—Congress, the executive branch, the private sector, everybody."

Politically Honest

Critics who are quick to bash Congress should also acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Unlike Reps. John Dingell (D., Mich.) or Tom Lantos (D., Calif.), two House inquisitors who blame everything all of the time on everyone but Congress, Mr. Gonzalez is politically honest. He's performing as a public educator, rather than in the typical congressional role of special-interest agitator.

It's a happy accident that Mr. Gonzalez is even in a position to do something about the S&L fiasco. His predecessor as committee chairman, and one of the scandal's main scoundrels, Fernand St Germain, would never have held hearings. ("I think that's safe to say," agrees Mr. Gonzalez, smiling.) Rhode Island voters luckily retired him. Donald Riegle (D., Mich.), Senate banking committee chairman, is one of the "Keating Five." Both the Reagan and Bush administrations have preferred to sweep any blame under the carpet and get on with bleeding taxpayers to pay for the cleanup. Many of his House colleagues are furious with Mr. Gonzalez.

Rep. Henry Gonzalez

The chairman is not the sort to let this no-one-here-but-us-public-servants club get him down. Long a maverick, he is known as the "King of the Special Order" for his long, solo speeches on the House floor. He called for the impeachment of Ronald Reagan, after the Grenada invasion and again during Iran-Contra. In the early 1970s, he opposed wage and price controls. He's a New Deal liberal (1988 Americans for Democratic Action rating: 100%), and he did insist on pushing new housing subsidies as part of the S&L bill, a venial sin compared to the Keating crowd. But his liberalism is tempered with a populist, independent streak that gives him the integrity of the unpredictable. In inbred Washington, his idiosyncrasy is a virtue.

An attempt to pacify Mr. Gonzalez in the usual Washington style may even account for his tenacity now. Reading through the Bush administration's S&L reform bill earlier this year, he was offended when he saw that Danny Wall would not have to be reconfirmed as the industry's chief regulator. He thought a round of confirmation hearings would be just the thing to clear the air about what went wrong. But when he objected, he says, a White House official told him, "This is the only way we'll get it through Garn and the Senate." (Two White House officials at the meeting say they don't recall that exchange.)

Critics of Congress should acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Mr. Gonzalez is performing as a public educator, rather than in the typical congressional role of special-interest agitator.

Later, Sen. Jake Garn (R., Utah) invited Mr. Gonzalez for a heart-to-heart in his Capitol hideaway. The subject was again Danny Wall, a former aide to the senator. Mr. Garn didn't want Mr. Wall to be reconfirmed if William Seidman, the chief bank regulator, didn't also have to be confirmed again. The two agreed that both would have to be reconfirmed. But a short time later, Sen. Riegle, the committee chairman, came back to Mr. Gonzalez and

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told him other senators objected to the House telling the Senate what to do: Neither Mr. Seidman nor Mr. Wall would be reconfirmed.

A spokeswoman for Mr. Garn says the senator went out of his way not to lobby either the White House or other senators on Mr. Wall's behalf. But that isn't how Mr. Gonzalez sees it. "There is no question that Garn surrounded Riegle," he says. "At first, Riegle said, 'I'm with you,' but later he said, 'there is serious concern in the Senate about the House telling the Senate who it can confirm.' " Whatever the truth, the Gonzalez hearings are in part the reconfirmation hearings Danny Wall never had.

As for the five senators who met with regulators on behalf of Mr. Keating, Chairman Gonzalez is unsympathetic. He pulls from his pocket a piece of paper quoting a line from former Illinois Sen. Paul Douglas: "A legislator should not immediately conclude that the constituent is always right and the administrator is always wrong, but as far as possible should try to find out the merits of each case and only make such representations as the situation permits."

For Mr. Gonzalez, that's the rub. "Of course, the question is, when does 'the situation permit'? But if a legislator doesn't know the difference by the time he gets to Congress, then it's too late," Mr. Gonzalez says. "I don't care what code of ethics you have." Anyone who doesn't know the difference between genuine "constituent service" and influence peddling probably doesn't belong in Washington. Yet Congress talks about a formal code of ethics almost as a way to justify influence peddling: Whatever isn't expressly illegal is somehow thought to be all right. In Congress, the last refuge of a scoundrel is ethics reform.

Mr. Gonzalez also breaks from the Washington pack by lamenting the perverse incentives of federal deposit insurance. In 1982, he opposed the Garn-St Germain bill that raised the amount of deposits covered per account to $100,000 from $40,000. The effect was to let S&L operators socialize their risk, while keeping profits private.

"We never had one minute of hearings on that," says Mr. Gonzalez. "It was very mysterious the way it happened." Late at night, in a House-Senate conference, Mr. St Germain asked for the $100,000 limit. No one objected—and few in the press even noticed.

The chairman says he's now considering ways to limit deposit insurance, something George Bush's S&L "reform" avoided altogether. He's especially worried because he thinks insurance has created the same disastrous incentives in the banking industry as it did earlier in S&Ls. It's become, he says, "a capital plaything," a taxpayer subsidy to private interests rather than the protection for the little guy it was intended to be. One obstacle to deposit insurance reform will be Rep. Frank Annunzio (D., Ill.), a banking subcommittee chairman who is a long-time pal of the S&L industry. But Mr. Gonzalez says he'll hold hearings on insurance even if Mr. Annunzio objects.

Just the Beginning

Mr. Keating declined to testify last week, so the S&L hearings will be dormant for a period. The banking committee staff is poring over the voluminous record, but Mr. Gonzalez intends to keep going. "This is just the beginning. We're going to have to pursue this," he says. "There's more than just Lincoln," Mr. Keating's failed S&L.

Mr. Gonzalez gets encouragement from his mail, most of which is inspired by C-Span's TV coverage of his hearings. ("I'm inundated," he says.) One letter in particular he prizes is from Raoul Berger, the noted jurist. Mr. Berger urged him on by quoting Winston Churchill: "Ministers have come under obligations to great interests. And it can be presumed or alleged that their votes or speeches have been corrupt." Henry Gonzalez likes the sound of that.

Mr. Gigot writes the Potomac Watch column on Fridays on this page.

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Comment

The Real Lesson From Lincoln S&L

By Warren T. Brookes

The Lincoln Savings and Loan scandal has already claimed one political victim, and could claim more. The recent resignation of M. Danny Wall as thrift regulator is likely to be followed by political, if not ethical, censure for the U.S. senators most closely involved with financier Charles H. Keating Jr.


Brookes

At the very least, three senators now on the Banking Committee; Donald Riegle Jr. (D-Mich) Chairman, and the two ranking members Alan Cranston (D-Cal) and Jake Garn (R- Utah) should now leave that committee, if there is any hope of restoring Senate credibility on banking regulation.

But, as we warned last June, the real lesson of Lincoln is not politics, but policy. The departure of Danny Wall, or the political demise of some senators, will not change a basic fact which Wall himself tried unsuccessfully to make clear: At the moment he finally seized Lincoln, its tangible net worth, as reported by Lincoln's accounting firm, was still higher than required by the supposedly 'get tough' S&L bailout bill passed by the Congress.

WHILE WALL was wrong to take regulatory control out of the San Francisco Home Loan Bank's purview, he's not wrong in contending it might have been very difficult to close Lincoln down in 1987, when its tangible net worth was over *double* the present standard.

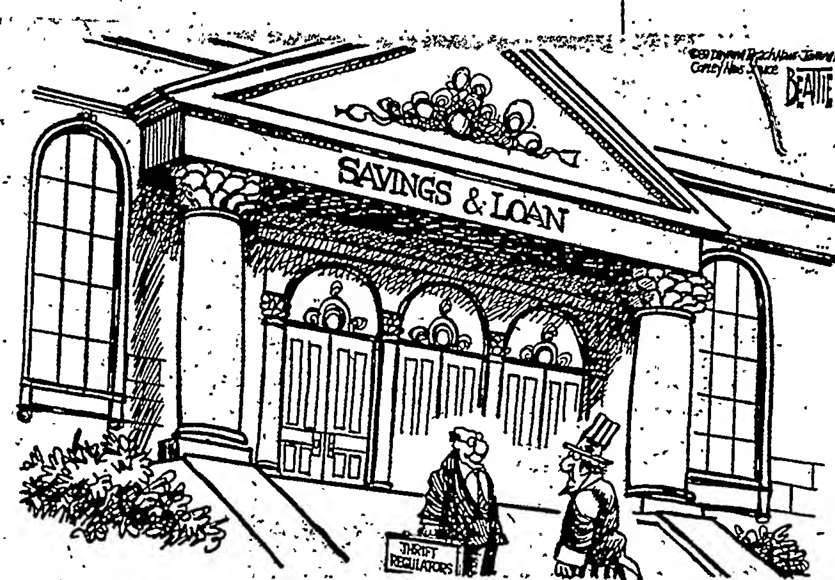
In short, our basic regulatory premise is still fatally flawed because it rests wholly on using supposedly 'tough' capital standards to protect the taxpayers, while doing nothing to limit or reform deposit insurance.

Sadly, those standards are still based on valuing loan assets at book rather than at market value. This means that no matter how risky the loans might be, the tangible capital required to back them is only 1.5 to 3 percent of their book value.

Or, as Lincoln's San Francisco regulators worried, 3 percent of 'nothing' is worth exactly that, nothing. Beginning in 1984, Charles Keating systematically sold off Lincoln's safe home mortgage assets and converted that money into high risk land development loans and direct investments.

AT SEIZURE, it turned out, the actual value of that more than 40 percent of loan assets in these high flying ventures was a fraction of the book value. The capital was more than wiped out.

In his October 19th testimony to the House Banking Subcommittee on Financial Institutions, Regulation and Insurance, bank expert Bert Ely showed that while the 2,249 most solvent thrifts now have a tangible net worth of 4.8 percent, or some $40.8 billion, those supposedly sol-



"I did a thorough examination.... Nice carpet... Liked the wallpaper, too."

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vent thrifts also have $121 billion in 'problem assets,' or three times their total tangible capital. Should those 'problem assets' have to be marked down by as much as 1/3, (not unrealistic) the entire industry is bankrupt, and by 20 percent, the industry is 'insolvent' under new rules.

For example, there are some 545 nominally solvent but weak S&Ls now have $10.7 billion in tangible capital, which is 2.8 percent of total tangible assets, well above the Bush capital standard. But those 545 thrifts also have $72.3 billion in 'problem loans', or 7 times as much as their tangible capital.

It would only take a 15 percent markdown of those 'problem assets' to wipe out those 545 banks' total capital, and it would only take a 5 percent markdown to force them into receivership.

EVEN SO, in order to help thrifts meet the new capital standards the regulators are already allowing some of them to issue more subordinated debt, similar to that issued by Lincoln.

As Nobel economist and long time liberal James Tobin of Yale warned in a recent Wall Street Journal article, the Bush bill, "modestly strengthens capital requirements and does little if anything to restrict thrifts and banks to safer portfolios (of loan assets). The new (capital) requirements ... would not have prevented the disaster." Tobin argues that "deposit insurance is largely obsolete" and should only be allowed on those deposits that are backed by from 30-100 percent in liquid assets (Treasury Bills and the like). Banks and thrifts should be encouraged to offer higher interest rates for non-insured deposits, giving depositors "a much stronger incentive than they do now to evaluate the prudence, skill and honesty of their bankers." Fortunately, House Banking Chairman Henry Gonzalez, who has earned public plaudits for his investigation of the Lincoln matter, told WSJ's Paul Gigot recently that he was thinking of ways to limit deposit insurance which he said 'has become a capital plaything,' for the big guys rather than a protection to the small depositor.

The Bush Administration, which ran away from real deposit insurance reform, and from mark-to-market accounting, must now come forward to help Chairman Gonzales protect us from more Lincolns in our future.

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Comments by Bush Suggest Danny Wall Lacks President's Support in S&L Post

By PAULETTE THOMAS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Danny Wall told a congressional subcommittee that he foresees doubling the pace of seizing sick savings and loan associationss, but his tenure as the nation's top thrift regulator appears to lack the full support of President Bush.

Mr. Bush, in an interview with editors of several Texas newspapers last week, wouldn't rule out calling for the resignation of Mr. Wall, who is the subject of an explosive series of congressional hearings over the demise of Lincoln Savings & Loan Association of Irvine, Calif. "I am not closing the door on it," Mr. Bush said, according to a transcript of the interview. "I just don't know at this juncture."

Mr. Bush was responding to an exhortation by Rep. Henry Gonzalez (D., Texas), chairman of the House Banking Committee, for Mr. Wall to step aside, at least while the committee explores why the thrift was allowed to remain open so long, piling up losses that will cost taxpayers more than $2 billion. Mr. Wall is scheduled to testify next week, along with Charles Keating Jr., the chairman of Lincoln's parent, American Continental Corp. of Phoenix, Ariz.

Mr. Bush, in the interview, said he hadn't pursued the matter with his staff. "When the question is put, if part of the savings and loan problem proves to be management or regulation people that aren't aggressive enough, would you make changes, the answer is yes, I have to do that."

Mr. Bush went out of his way to praise Mr. Gonzalez, who has held four hearings on the issue. A federal regulator testified that he was pressured by five U.S. senators to quickly end a longstanding and difficult examination of Lincoln. "I know it's painful for some, but I would salute Chairman Gonzalez's tenacity in these hearings," Mr. Bush said. "He's been very cooperative with the administration. And so I will have to give him an answer fairly soon on that."

Five senators, including four Democrats, have been accused of trying to delay the closure of Lincoln on behalf of Mr. Keating, who is a substantial contributor to influential politicians of both parties. The senators are Dennis DeConcini (D., Ariz.), Alan Cranston (D., Calif.), Donald Riegle (D., Mich.), John Glenn (D., Ohio) and John McCain (R., Ariz.).

A spokesman for Mr. Wall said it is inappropriate to speculate on such actions until Mr. Wall testifies. "Fair play dictates that all sides be heard from before any decisions are made. In that light, we are looking for our opportunity to testify next week."

Meanwhile, Mr. Wall told a house banking subcommittee that his agency intends to quicken the pace of seizing insolvent thrifts, to as many as six institutions per week from 2.4 currently.

Mr. Wall projected that as many as 576 undercapitalized S&Ls could be seized over the next two years and turned over to the Resolution Trust Corp., the new agency that will sell or merge sick S&Ls.

In making his forecast, Mr. Wall made a pitch for Congress to agree with the RTC on a plan to raise interim funding for taking control of the sick S&Ls. A dispute over how the tens of billions of dollars should be raised, and the effect on the federal budget deficit, must be resolved before the agencies can speed up the pace.

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Keating affair has press squirming

Editor:

In William P. Cheshire's Nov. 19 "Keating Five" column he claims that congressional "interference" makes bureaucrats squirm and has led them to roar about "the Keating Five" to obscure their own failures in the matter and to discourage future intervention on behalf of constituents. Such a claim is totally without merit.

First, since he cites no "bureaucrats" other than Mr. Gray, I suppose he considers him to be a spokesman for the bureaucracy. Clearly, this is erroneous since by the information presented in Mr. Cheshire's column Mr. Gray is a political appointee and not a bureaucrat at all.

Second, the bureaucracy is not "roaring" about "the Keating Five." Rather it is the press, both national and local, that is "roaring," perhaps in some attempt to obscure their own failures to report earlier on the Keating affair. A responsible and independent press should have asked where and how American Continental Corp. obtained its vast sums of money. Instead, the fawning and obsequious local press slavishly reported on Mr. Keating's "vision" for Estrella, the obscene salaries enjoyed by Judy Wischer and her compatriots and the grotesque opulence of the Phoenician Resort.

Finally, bureaucrats do not make laws, but they are responsible for enforcing them. While they are human and therefore far from perfect, most do try to enforce fairly and impartially the laws of this country. In contrast, congressional representatives write laws but do not enforce them. They expect to assist their constituents when problems arise with federal agencies, but are there proper limits to such assistance? We expect our representatives to listen more to their financial contributors, but at what point do our elected representatives become merely paid lobbyists for sale to the highest bidder?

ROBERT A. WILLIFORD
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THE LINCOLN HEARINGS

Highlights of Tuesday's testimony

Tuesday was the sixth day of House banking committee hearings into the collapse of the Lincoln Savings and Loan Association, which was controlled by Charles H Keating Jr.'s American Continental Corp. On this page are highlights of Tuesday's testimony. Keating was scheduled to testify but invoked his Fifth Amendment rights and refused to do so.

Rep. Henry Gonzalez, D-Texas, chairman of the House banking committee: "Both men (M. Danny Wall and Charles H Keating Jr.) are in a great position to shed light on why and how a savings and loan was allowed to drive over the cliff at a cost of $2 billion of public monies. These hearings have been tough assignments for the committee and the tensions have risen with the volatility of the issues, but this committee would be derelict in its duties if it failed to make an attempt to find out why the regulatory process failed so miserably, so often, at so many levels.

"As today's testimony will demonstrate, there's a fundamental difference in the manner in which Washington and the San Francisco bank view the Lincoln problem. With a third of the nation's savings and loan assets under its regulatory wing, including the biggest of the big, the San Francisco Home Loan Bank viewed Lincoln as, and I quote, a ticking time bomb, end of quote, that required early action. Washington, it appears, looked on Lincoln as another case for the home loan bank board's traditional medicine of negotiation, accommodation, and faith that management would ultimately do the right thing.

"There is also evidence that the Washington regulators didn't truly sense who they were dealing with in Charles Keating. In one bank board meeting, chairman Wall tells his colleagues that he has known Keating for 13 years and describes him as a very active, very successful entrepreneurial businessman.

"Comparing Keating to the high flier that brought down Vernon Savings and Loan in Texas, Mr. Wall declared emphatically, 'He's no Don Dixon.' These high fliers cloaked in entrepreneurial trappings, crept into the savings and loan industry throughout the 1980s, a fact that the home loan bank board seemed not to understand until it was too late.

"Take two aspirins and call us back in the morning may have been adequate regulatory medicine for the traditional savings and loans that stayed in the home mortgage business. For the Charlie Keatings, the new breed of savings and loan operators, it was laughter. This was jet age banking up against horse and buggy regulation.

"The record suggests that Keating never made any secret of his plans. He left no doubt that he intended to push regulations to the limits, and beyond, and to take on high-risk ventures, everything from loan-shark land developments to Ivan Boesky junk bond deals. Lincoln was the cash machine for Keating and American Continental Corporation, their own personal ATM.

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"As the weeks and months went by, the bank board found itself mired deep in the Keating scheme. In a May 1988 meeting, a troubled bank board member, Larry White, described the board's plight: 'We've got a high-risk institution, and to get out of this situation, we have to follow the words of Charles Keating, that it's a two-word admonition, trust me. And if you want me, Keating, to get us out of this situation, trust me, go with me a little bit longer, and I will get us out of this situation.'

"Even this year with Lincoln in its final hours chairman Wall continued down this trust-Keating trail, still trying to avoid conservatorship. Mr. Wall assured his colleagues that Keating would find a buyer. Notes produced by board member Roger Morgan quotes Danny Wall as saying on April 5: 'Conservatorship is not the only alternative; Keating is skilled enough to produce another acquirer.' This was nine days before Lincoln died and the body was willed to the federal government with no funeral expenses provided."

■

Rep. Jim Leach, R-Iowa: "Mr. Chairman, our witnesses have a lot to defend today. The leader of a moralizing campaign in Arizona against pornography, Mr. Keating appears by the record to be an economic pornographer, defiling the value of the savings of the elderly and adulterizing the safety and soundness of the American financial system. If the allegations the committee have heard so far are true, Charles Keating is a financiopath of obscene proportions — the Rev. Jim Bakker of American commerce, given license to steal from a bank board headed by the Neville Chamberlain of financial regulation, a cheerleader who saw no evil and thus spoke little truth."

■

Rep. Frank Annunzio, D-Ill.: "Mr. Chairman, one of the facets of the Lincoln Savings and Loan situation that has caused me great concern is the sale of subordinated debt of the savings and loan parent company, American Continental Corporation, in the lobbies of the thrift institution. We recently heard from people who purchased those bonds who said they felt that the bonds were federally insured and there was no possibility of loss of principal. . . .

"As we move forward in any banking legislation, we must carefully consider what activities can be conducted under the shield of federal insurance. Certainly we can write into the law restrictions on insurance coverage with certain products. But if those products are sold in a financial institution lobby or by employees at that financial institution how do we protect the insurance fund from claims by unhappy purchasers? . . .

"It is not enough to warn customers that their investments may not be federally insured. We must make certain that not even the appearance of federal insurance exists for anything but legitimate insured banks and thrift institutions."

■

Rep. Chalmus Wylie, R-Ohio: "I don't think that there's any doubt that in 1987 Danny Wall took the toughest assignment in Washington and under most difficult circumstances. I would agree with his testimony that upon reflection on the Lincoln matter things should have been (handled) differently, but as we all know hindsight has 20-20 vision.

"Let there be no doubt as opposed to Danny Wall, who has made a career of public service, it would appear that Charles Keating has made a career of self-service."

■

Rep. Charles Schumer, D-N.Y.: "I'd also like to say that I am glad, Mr. Chairman, that Mr. Keating is finally appearing before this committee because it's time we had Mr. Keating's explanation. He certainly has a lot of explaining to do. This country's taxpayers were left holding the bag for $2 billion when Keating's savings and loan went bust. For that much money, Americans deserve answers to their questions. . . .

"I'd like to ask Mr. Keating after costing average Americans $2 billion how he can continue to live his fancy life, take his expensive trips, and look himself in the mirror. . . . As Americans begin to understand the magnitude of what hap-

pened, I think there's going to be real outrage from coast to coast."

■

Rosemary Stewart, director of enforcement for the Office of Thrift Supervision: "The supervisory agreement has been characterized in terms that I would not even wish to repeat. These documents have been called unenforceable. The most serious error is that everyone continues to report that we executed a memorandum of understanding as the enforcement document. The enforcement document in this action was a supervisory agreement, the most commonly used tool of the Federal Home Loan Bank Board at the time....

"The memorandum of understanding was not the enforcement document...."

■

Darrel Dochow, senior deputy director for supervision operations, Office of Thrift Supervision: "Not once in this entire process, from the time I assumed my responsibilities in September of 1987 as executive director to today, did I receive any pressure from Senate or House members or their staffs to take ... any specific action on Lincoln....

"I didn't think moving them (Lincoln) to Washington (D.C.) or any other district was going to give them easy supervision. In fact, I think Lincoln would attest to that today....

"The Lincoln situation was considered unique and complex; in fact, so unique and complex that it would not set precedent for other financial institutions to receive similar treatment. It was approached as a novel, one-time-only situation that would not pave the way for other institutions to shop districts or supervisors....

"It's easy to use hindsight in second-guessing the judgments that were made in this ~~matter~~. It's easy to use hindsight in guessing whether conservatorship action should have been taken earlier. Some of the judgments that were made were mine and I accept responsibility for those judgments. Knowing what we know now, a different approach, even if litigated over many many months, if not years, might have been more effective."

■

M. Danny Wall, director of the Office of Thrift Supervision: "Many people have said that I wasn't tough enough. Some people have said that this was a no-win job. Maybe both had been some people's views. But I would submit to you that I have said to 553 institutions: 'You're out of business.'...

"Not only did Mr. Keating not offer me a job anywhere in this process, he opposed me for this position....

"No political figure influenced my decisions. I don't know how I can say that more emphatically!...

"I look back and I second-guess. You bet I do. Maybe sometimes almost to distraction. We have made thousands of decisions in this process and there are thousands more decisions that have to be made and somebody has to make them and somebody has to have the responsibility, and in that sense I have the responsibility....

"If I had known then what I know now, would I have done things differently? Certainly. We all would. In every action, in almost every decision we made — even though at the time it appeared and had been certified as being a solvent institution in full capital compliance by one of the Big Eight accounting firms. ...

... "Hindsight has caused us to realize a lot of things, including that we had the smoking gun as of August 4, 1987, but we didn't know we had it."

■

Gonzalez: "I certainly don't want to be uncharitable or unkind, but I want to be as harsh as truth and as uncompromising as justice. Do you really truly believe that these excuses are comforting either to

myself' . . . or to the American people? That a huge regulatory bureaucracy could do nothing, did nothing and watched the institution go down before their eyes. . .

"The bottom line remains: $2 billion of public monies were lost and thousands of retirees were swindled out of their life's savings."

■

Wall: "We can and must guard against allowing the mistakes of the past to be repeated. The lesson of Lincoln is that we must continually adjust our political, supervisory and regulatory compass to ensure that our insured financial institutions never deviate from the course set for them as safe havens for the savings of Americans' deposits.

"We must work together to assure the American people that scoundrels will never again be able to pick the taxpayers' pocket."

■

Leach to Wall: "There has this morning been a lot of finger pointing. Your Washington team suggests that the San Francisco board is more than slightly at fault. But like a gun when fired, responsibility points to the person pulling the trigger. You sir, for two and a half years, have held the gun. You and your staff cannot shirk responsibility. . . ."

■

Rep. Bill McCollum, R-Fla., to Wall: "Have you had, since you've been in your office, conversations with Sen. (Dennis) DeConcini (D-Ariz.) about this whole matter of Lincoln?"

Wall: "I had two calls from Sen. DeConcini early this year, in March and/or April, where we had under consideration one of the series of three applications to sell Lincoln. His call to me was urging that we give prompt consideration to two different of the three proposals. It was not something that was falling on deaf ears. We were trying to do it anyway. He was urging we give prompt consideration, not what the consideration be, yes or no. . . ."

■

Rep. Carroll Hubbard, D-Ky., to Stewart: "This is a $2 billion loss. . . . What red flags were missed over the years here along the way that caused the Keating mess?"

Stewart: "As early as the beginning of the 1986 examination, the Washington supervision office . . . was telling attorneys in my office that Lincoln had all the red flags. It had a high level of direct investments. It had high-risk loans concentrated in one area, Arizona. I don't believe there was any failure to spot the red flags. The failure was to document in such a nature that some action could be taken based on those. . . ."

■

Rep. Thomas Carper, D-Del., who was questioning Wall when Keating walked into the room, stirring a huge commotion by TV crews: "Mr. Chairman, I can only assume that these television camera people heard that I was asking questions (chamber erupts in laughter). And just in case they're not sure, I'm sitting right up here (more laughter) on the second row."

■

Schumer: "It seems to me in broad retrospect, the whole idea of holding out and holding out and holding out for a peaceful resolution gave Charlie Keating the ability to get away with what he got away with. And it would seem to me, certainly in retrospect, that there was too much emphasis on a peaceful resolution."

■

Rep. Bruce Vento, D-Minn., to Stewart: "But you had these agreements or recommendations or options seven or eight months before you finally made a decision in May. You practically were fiddling while Rome was burning . . .

"The only criteria then was the insolvency then? The other issues are not important. If they're not insolvent, you can't do anything. In other words, what you're saying to me, more or less here, if this particular phenomena occurred again we couldn't do anything to stop losing $2 billion. . . .

"Well, you were all wrong, you were all wrong, and we want to hear you say that you were wrong. You're not here saying anything. You're saying, 'Well, that's the way it is, we made the best judgment and that's it. Tough. $2 billion.' You were wrong."

■

Rep. Joseph Kennedy II, D-Mass.: "The fundamental fact is that by ignoring the fundamental wrongdoings that were taking place in that organization billions and billions of dollars are going to have to be coughed up by the American people."

■

Rep. Paul Kanjorski, D-Pa., to Stewart: ". . . Have you see any criminality involved that comes across from all these examinations? Or do you have any suspicions? . . . I can't believe that you as an attorney didn't see that you've got enough material here and essence of criminality. Did you see this or not?"

Stewart: "Criminal referrals were made in this case. Repeatedly. . . ."

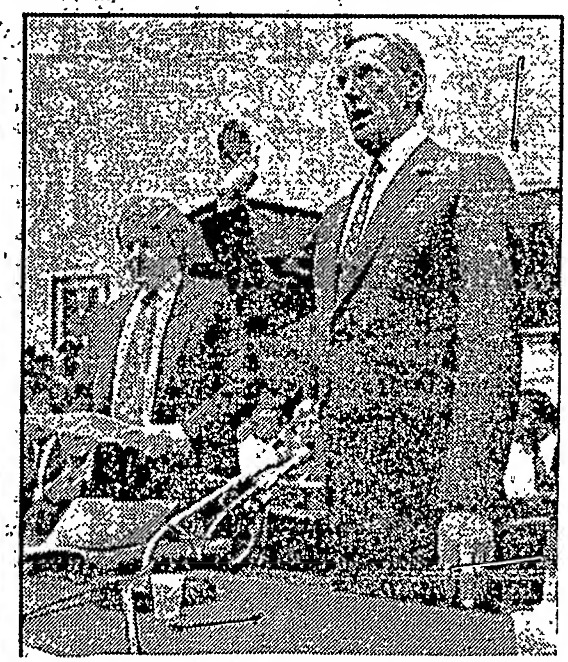
Kanjorski: "Have there been any? To date, have there been any charges filed against Mr. Keating or any of his cohorts for stuffing files, for washed transactions, for back scratching, for all the transactions we've heard talk about here?"

Stewart: "They're under investigation. . . . by the Department of Justice."

John Blackmer, *The Phoenix Gazette*

Keating in the spotlight

House committee hearings into the Lincoln Savings and Loan failure climaxed Tuesday with the testimony of top regulators and the appearance of Charles H Keating Jr. Keating was sworn in (below right), but invoked his Fifth Amendment right to refuse to testify. Police keep the press at bay (below left and above) as Keating leaves.



Rep. Henry Gonzalez
Committee chairman

M. Danny Wall
Chairman, Office
of Thrift Supervision

Darrel Dochow
Office
of Thrift Supervision

Rosemary Stewart
Office
of Thrift Supervision

Rep. Jim Leach
Committee member

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JAN 26 1990

FBI — PHOENIX

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Gray blames DeConcini, Cranston

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WASHINGTON (AP) — Sens. Dennis DeConcini and Alan Cranston bear more blame than three other senators accused with them of improperly intervening with regulators in connection with the Lincoln Savings and Loan Association, a former top regulator says.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, on Sunday insisted that the five lawmakers improperly pressured him as a favor to Lincoln owner Charles H. Keating Jr. "They were asking me to withdraw a regulation for their friend," Gray said. "I said, 'We're not going to do that.'"

Two congressional committees are investigating the failure of the Irvine, Calif.-based Lincoln S&L, which is expected to cost the taxpayers up to $2.5 billion — $50 for each American family, according to Rep. Jim Leach, R-Iowa.

The five senators intervened with federal regulators in 1987 on behalf of Lincoln and Keating, who gave them a total of $1.3 million in campaign and other political funds. The other three are Sens. John Glenn, D-Ohio; Donald W. Riegle Jr., D-Mich.; and John McCain, R-Ariz.

All five senators have said they violated no law or rule of the Senate, and they have disputed Gray's account of the 1987 meetings.

But the Senate Ethics Committee two weeks ago appointed an outside counsel to investigate charges that their intervention constituted a conflict of interest.

Asked on ABC's "This Week With David Brinkley" whether any of the senators were "more culpable than others," Gray said, "Yes absolutely ... Senator DeConcini, who made the proposal, who has continued to stonewall and deny it. And Senator Cranston," who received $850,000 in corporate donations from Keating for three voter registration projects he favored after the senators' two 1987 meetings with federal regulators.

Meanwhile, M. Danny Wall, the nation's chief savings and loan regulator, acknowledged on the Brinkley show that he made mistakes in connection with the massive Lincoln S&L failure, but said he has no plan "at this point" to resign.

Wall, head of the Office of Thrift Supervision, said he believed that as congressional investigations proceed, "time will indeed be kind to us." President Bush said two weeks ago he had not ruled out replacing Wall.

McCain and Glenn insisted on the Brinkley show that they did nothing wrong in connection with the Lincoln case.

"Any implication that I have done something wrong in this case is just flat wrong, and I resent it with every fiber in my being," Glenn said.

McCain said, "It was a serious mistake on my part" to have not immediately made reimbursements for trips taken on Keating's corporate plane, but he insisted that inquiries eventually will clear him of any rule-breaking.

"I did nothing that I wouldn't do for any major employer, or economic factor, in my state," McCain said.

According to regulators, Lincoln's money — in the form of S&L deposits insured by the federal government — was lost to an elaborate "pyramid scheme" of phony real estate and other deals by Keating.

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Keating case a raging fire for senators

So, are Arizona Sens. Dennis DeConcini and John McCain *really* feeling heat over the Keating-Lincoln Savings fiasco, or is this a one-alarm fire stoked by the local media?

It's a forest fire.

The fact that cavalier Charlie's shenanigans became the subject of nationally televised congressional hearings ought to be the first clue.

If that doesn't convince you, take a look at the actions of the embarrassed senators who went to bat for Keating. And at the exposure the whole mess is getting on television, newspapers and magazines all over the world.

- The London-based *Economist* magazine went so far this week as to call the Lincoln Savings debacle the Iran-contra affair of the U.S. thrift industry.
- The Keating calamity regularly makes network news and has been spotlighted in the past two weeks on the *MacNeil Lehrer Report*, *Nightline*, *This Week With David Brinkley* and National Public Radio's *Morning Edition*.
- Each of the "Keating Five" senators has hired hot-shot Washington lawyers. Most specialize in white-collar crime.
- The conduct of the five senators — Democrats DeConcini, Donald Riegle of Michigan, Alan Cranston of California, John Glenn of Ohio and Republican McCain — has provided fodder for front-page stories and stinging editorials in newspapers across the country.

KEVEN WILLEY
Political Columnist

Reform is the issue

With any luck, this imbroglio will lead to campaign-finance reform. That's really the big issue here. We've simply created a system that rewards elected officials who prostitute themselves for special interests, and it's a system that desperately needs overhauling.

In the meantime, you probably shouldn't bet the house and kids that Keating will ever do time over this. Not with his coterie of attorneys and the way our justice system works.

But it's pretty clear that the Keating Five have been severely damaged by the whole episode.

Wagging tongues already contend that the debacle has shattered McCain's dreams of running for president and that DeConcini will make his third term his last. It's far too early to tell — McCain's not up for re-election until 1992, and DeConcini not until 1994 — but the senators' own actions seem to mirror these fears.

Of the five, McCain has been by far the most open in his damage-control efforts, starting with his unusual 90-minute October news conference in Phoenix. Since then, he has focused much of his attention nationally, accepting nearly every invitation to appear on national news programs, including most recently the Brinkley show and *Nightline*.

Clearly, he's worried about his national image.

DeConcini, meanwhile, has targeted his efforts on Arizona. He's done scads of interviews with broadcast and print media.

DeConcini, who's always excelled in constituent service, knows where his bread is buttered.

Other strategies

Other senators have adopted their own strategies.

Riegle, for example, has been among the most tight-lipped. And he's taking his licks for it.

Riegle's "reluctance to divulge the exact role he played in this fiasco is disheartening and should give even his staunchest backers reason to pause," the *Grand Rapids Press* editorialized recently.

"At the least, the senator exercised bad judgment . . ." the editorial continued. "At the worst, he's guilty of selling his position."

In Ohio, *The Columbus Dispatch* was hard on Glenn last week, saying, "For Sen. Glenn, it's no 'national hero' these days; it's 'purchased politician' or one of the 'Keating five' or 'senator for sale.' "

Dayton Daily News Editor Max Jennings, formerly of *The Mesa Tribune*, was more charitable, saying, "Glenn and the rest got sandbagged. That happens in politics, and Glenn can be forgiven for that, but only if he acknowledges what happened and washes his hands of the Keating money."

In California, pollster Mervin Field says Cranston is in "deep trouble" politically because of congressional testimony from elderly residents who blame him for the loss of their life savings in Keating-related investments.

The issue is more partisan in other states. Michigan's GOP chairman called for Riegle to step down as chairman of the Senate Banking Committee. Republicans there and in California and Ohio can hardly contain their glee as Riegle, Cranston and Glenn struggle to explain why voters should not assume that the lawmakers placed the interests of a high-flying "fat cat" above the little people who will be paying the tab for Lincoln's collapse for decades.

In Arizona, it's tough for either party to take potshots because both parties' senators are involved.

Yep, it's a raging forest fire. And you can bet it's going to blacken a lot of political rangeland before it's through.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Dismissal of S&L regulator is urged

Bush supports embattled Wall

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocates and thrift groups Wednesday increased pressure on President Bush to fire M. Danny Wall as the nation's top thrift regulator because of his oversight of Lincoln Savings and Loan.

Wall ignored the renewed pleas for his ouster, and the White House stuck to its official position that no decision has been made to relieve Wall as director of the Office of Thrift Supervision.

Top members of Congress have called for Wall's firing because of Lincoln's collapse and the crisis in the nation's savings-and-loan industry. Several groups added their names Wednesday to the list of those wanting Wall gone.

Citizens Against Government Waste, Ralph Nader's Public Citizen organization, the National Taxpayers Union Foundation, and nationally known thrift analyst Bert Ely said at a joint press conference that Wall's mishandling of the S&L crisis requires his removal.

"The amount of money that has been lost in this thing, people just do not comprehend," taxpayers-foundation Chairman James Davidson said.

"It's more than it took to build the interstate highway system. We could rebuild the interstate highway system with the money that has been poured into this black hole for the S&Ls.

"Every time you sit in a traffic jam for the rest of your life, think of the fact that you don't need to be there if these people had not whittled away these hundreds of billions. This is more than the cost of the Vietnam War. We should have a memorial on the mall for this lost money."

The S&L crisis is expected to cost taxpayers at least $150 billion. The direct cost of the Vietnam War has been estimated at $140.6 billion, according to the Encyclopedia of American Economic History.

Davidson and the others stressed Lincoln's failure, as well as the overall thrift crisis, as justification for Wall to either quit or be fired. They joined earlier calls for his ouster from Senate Majority Leader George Mitchell, D-Maine; *The Wall Street Journal*; and House Banking Committee Chairman Henry Gonzalez, D-Texas.

But Wall spokesman Karl Hoyle said his boss, who headed the Federal Home Loan Bank Board until the

— *See* **BUSH**, *page D7*

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Bush urged to fire S&L regulator over Lincoln debacle

— BUSH, *from page D1*

Office of Thrift Supervision took its place, should be lauded for his performance.

"Dan's job was to salvage what was left of the industry, to set it back straight, to return it back to some kind of working order," Hoyle said.

Hoyle said Wall had not been contacted by the White House or by his superiors at the Treasury Department about resigning.

Bush said earlier this month that he would consider replacing Wall if he found him to be at fault, but a few days later, the administration said it had no intention of pushing Wall out.

White House spokesman Marlin Fitzwater repeated that stance Wednesday morning, saying "There's been no consideration of Mr. Wall's tenure."

Wall has become a lightning rod for criticism of the government's handling of the S&L crisis, and recently concluded House hearings on Lincoln's collapse led to the renewed calls for Wall's ouster.

Wall, who testified Tuesday before the House Banking Committee, said he had moved as quickly as possible to close Irvine, ~~Calif.-based~~ Lincoln and denied that he hesitated because of pressure from five senators, including Arizona's.

But the groups calling for Wall's ouster said Wednesday that Wall had to have been influenced by the intense interest that those senators exhibited in how Charles H. Keating Jr. and his Lincoln thrift were being treated.

"When you have that many senators who are ganging up together, it has an effect," Public Citizen President Joan Claybrook said.

"It is a very inappropriate thing for them to have done."

The five senators — ~~Dennis~~ DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. — met with federal regulators in April 1987 to ask why their examination of Lincoln was taking so long.

All five, who now are under scrutiny by the Senate Ethics Committee and the FBI, have denied any wrongdoing.

The senators met twice in DeConcini's office on regulators' examination of Lincoln, and DeConcini and Cranston tried to persuade officials as late as last spring to help Keating sell his thrift rather than let it be seized by the government.

Those efforts failed, and regulators took over Lincoln on April 14.

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(Mount Clipping in Space Below)

What was said at key meeting in Lincoln case

These notes are excerpted from the April 9, 1987, meeting between five U.S. senators and San Francisco-based regulators of the Federal Home Loan Bank Board.

The notes, taken by William K. Black, then-deputy director of the Federal Savings and Loan Insurance Corp., have become a key to the investigation into the collapse of Charles H Keating Jr.'s Lincoln Savings and Loan. They are central to the question of whether the five senators intervened improperly with federal regulators in an attempt to persuade them to ease up on Lincoln following Keating's complaint that the government was unfairly restricting his ability to do business. All five senators received donations from Keating, but deny impropriety.

While extensive, these notes are not an official transcript of the meeting. Nevertheless, they have been examined by the participants and none has disputed their accuracy.

PARTICIPANTS:

WILLIAM K. BLACK, then-deputy director of the Federal Savings and Loan Insurance Corp. (FSLIC).

JAMES CIRONA, president of the Federal Home Loan Bank of San Francisco.

SEN. ALAN CRANSTON, D-Calif.

SEN. DENNIS DECONCINI, D-Ariz.

SEN. JOHN GLENN, D-Ohio.

SEN. JOHN MCCAIN, R-Ariz.

MICHAEL PATRIARCA, Director of Agency Functions, FSLIC.

SEN. DONALD RIEGLE, D-Mich.

RICHARD SANCHEZ, supervisory agent for Lincoln.

DeConcini: . . . We wanted to meet with you because we have determined that potential actions of yours could injure a constituent. This is a particular concern to us because Lincoln is willing to take substantial actions to deal with what we understand to be your concerns. Lincoln is prepared to go into a major home loan program — up to 55 percent of its assets. We understand that that's what the Bank Board wants S&Ls to do. It's prepared to limit its high risk bond holdings and real estate investments. It's even willing to phase-out of the insurance process if you wish. They need to deal with, one, the effect of our reg. . .

— See NOTES, page C6

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Notes from key meeting excerpted

—**NOTES,** *from page C1*

Lincoln is a viable organization. It made $49 million last year even more the year before. They fear falling below 3 percent and becoming subject to your regulatory control of the operations of their association. They have two major disagreements with you. First, with regard to direct investment. Second, on your reappraisal. They're suing against your direct investment regulation. I can't make a judgment on the grandfathering issue. We suggest that the lawsuit be accelerated and that you grant them forbearance while the suit is pending. I know something about the appraisal values . . . of the Federal Home Loan Bank Board. They appear to be grossly unfair. I know the particular property here. My family is in real estate. Lincoln is prepared to reach a compromise value with you.

Cranston: I'm sorry I can't join you, but I have to be on the floor to deal with the bill. I just want to say that I share the concerns of the other senators on this subject. . . .

McCain: . . . One of our jobs as elected officials is to help constituents in a proper fashion. ACC (American Continental Corp.) is a big employer and important to the local economy. I wouldn't want any special favors for them. It's like the Apache helicopter program that Dennis and I are active on. The Army wants to cut back the program. Arizona contractors make major components of the Apache helicopter. We believe that the Apache is important to our national defense. That's why we meet with (name omitted) and try to keep the program alive.

I don't want any part of our conversation to be improper. We asked (Bank Board) Chairman (Edwin J.) Gray about that and he said it wasn't improper to discuss Lincoln. I'd like to mention the appraisal issue. It seems to me, from talking to many folks in Arizona, that there's a problem. Arizona is the second-fastest growing state. Land values are skyrocketing. That has to be taken account of in appraisals. . . .

Glenn: . . . ACC is an Ohio-chartered corporation. I've known them for a long time, but it wouldn't matter if I didn't. Ordinary exams take maybe up to six months. Even the accounting firm says you've taken an unusually adversary view toward Lincoln. To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on? I asked Gray about this. Lincoln has been told numerous times that the exam is being directed to continue by Washington. Gray said this wasn't true.

Riegle: . . . The appearance from a distance is that this thing is out of control and has become a struggle between Keating and Gray, two people I gather who have never even met. The appearance is that it's a fight to a death. This discredits everyone if it becomes the perception. If there are fundamental problems at Lincoln, OK.

I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want professionalism. And your backgrounds attest to that professionalism. But I want not just professionalism, but fairness and the appearance of fairness. So I'm very glad to have this opportunity to hear your side of the story.

Glenn: I'm not trying to get anyone off. If there is wrongdoing I'm on your side. But I don't want any unfairness against a viable entity. . . .

Cirona: First, if there's any fault to be had concerning the length of the examination, it's on my shoulders. We determine how examinations are conducted. Gray never gave me instructions on how to conduct this exam or any other exam. At this meeting you'll hear things that Gray doesn't know.

DeConcini: Did Gray ever talk to you about the examination of Lincoln? . . .

Patriarca: . . . We received no instructions from Gray about the exam of Lincoln. We decide how to do the exam.

Cirona: This meeting is very unusual, to discuss a particular company.

DeConcini: It's very unusual for us to have a company that could be put out of business by its regulators. . . .

Sanchez: An appraisal is an important part of underwriting. It is very important. If you don't do it right you expose yourself to loss. Our 1984 examination showed significant appraisal deficiencies. Mr. Keating promised to correct the problem. Our 1986 examination showed that the problems had not been corrected, that there were huge appraisal problems. There was no meaningful underwriting on most loans. We have independent appraisals. Merrill Lynch appraised the Phoenician. It shows a significant loss. Other loans had similar losses.

DeConcini: Why not get an independent appraiser?

Sanchez: We did.

DeConcini: No, you hired them. Why not get a truly independent one or use arbitration, if you're trying to bend over backwards to be fair. There's no appeal from your reappraisal. Whatever it is you take it.

Sanchez: If it meets our appraisal standards.

Cirona: The Phoenician reappraisal process is not complete. We have received Lincoln's rebuttal and forwarded it to our independent appraisers. . . .

Sanchez: Lincoln had underwriting problems with all of their investments, equity securities, debt securities, land loans and direct real estate investments. It had no loan underwriting policy manual in effect when we began our 1986 exam. When the examiners requested such a manual they were informed that it was being printed. The examiners looked at 52 real estate loans that Lincoln had made since the 1984 exam. There were no credit reports on the borrowers in all 52 of the loan files.

DeConcini: I have trouble with this discussion. Are you saying that their underwriting practices were illegal or just not the best practice?

Cirona: These underwriting practices violate our regulatory guidelines.

Black: They are also an unsafe and unsound practice.

DeConcini: Those are two very different things.

Sanchez: You need credit reports for proper underwriting. . . .

Riegle: . . . Do we have a history of loans to folks with inadequate credit?

Sanchez: $47 million in loans were classified by examiners due to lack of adequate credit to assure repayment of the loans.

Patriarca: They're flying blind on all of their different loans and investments. That's what you do when you don't underwrite. . . .

Glenn: How many loans have gone belly-up?

Sanchez: We don't know at this point how many of the 52 ~~have~~ defaulted. These loans generally [illegible] interest reserves.

Glenn: Well, the interest reserve should have run out on many of these.

Cirona: These are longer-term investments.

Black: I know that Lincoln has refinanced some of these loans.

Glenn: Some people don't do the kind of underwriting you want. Is their judgment good?

Patriarca: That approach might be OK if they were doing it with their own money. They aren't, they're using federally insured deposits.

Riegle: Where's the smoking gun? Where are the losses?

DeConcini: What's wrong with this if they're willing to clean up their act?

Cirona: This is a ticking time bomb.

Sanchez: I had another case which reported strong earnings in 1984. It was insolvent by 1985.

Riegle: These people saved a failing thrift. ACC is reputed to be highly competent.

Black: Lincoln was not a failing thrift before ACC acquired it. It met its net worth requirement. It had returned to profitability before it was acquired. It had one of the lowest ratios of scheduled assets in the 11th District, the area under our jurisdiction. Its losses were caused by an interest spread problem from high interest rates. It, as with most other California thrifts, would have become very profitable as interest rates fall.

DeConcini: I don't know how you can consider it a success story. It lost $24 million in 1982 and 1983. After it was acquired by ACC it made $49 million in one year.

McCain: I haven't gotten an answer to my question about why the exam took so long.

Sanchez: It was an extremely complex examination because of their various investments. The examiners were actually in the institution from March to October — eight months. The asset classification procedure is very time consuming.

McCain: What's the longest exam you ever had before?

Cirona: Some have technically never ended, where we had severe problems with a shop.

McCain: Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?

Glenn: And Arthur Anderson said they withdrew as Lincoln's prior auditor because of your harassment. . . .

Patriarca: I'm relatively new to the savings and loan industry, but I've never seen any bank or S&L that's anything like this. This isn't even close. You can ask my banker you know about these practices. They violate the law and regulations and common sense.

Glenn: What violates the law?

Patriarca: Their direct investments violate the regulation. Then there's the file stuffing. They took undated documents purporting to show underwriting efforts and put them into the files sometimes more than a year after they made the investments.

Glenn: Have you done anything about these violations of law?

Patriarca: We're sending a criminal referral to the Department of Justice. Not maybe, we're sending one. This is an extraordinarily serious matter. It involves a whole range of imprudent actions. I can't tell you strongly enough how serious this is. This is not a profitable institution. Prior year adjustments will reduce the reported $49 million profit. They didn't earn $49 million. Let me give you one example. Lincoln sold a loan with recourse and booked a $12 million profit. The purchaser rescinded the sale, but Lincoln left the $12 million profit on its books. Now, I don't care how many accountants they get to say that's right, it's wrong. The only thing we have as regulators is our credibility. We have to preserve ti.

DeConcini: Why would AY say these things? They have to guard their credibility too. They put the firm's neck out with this letter.

Patriarca: They have a client. The $12 million in earnings was not unwound.

DeConcini: You believe they'd prostitute themselves for a client?

Patriarca: Absolutely, it happens all the time. . . .

Cirona: I also wanted to note that the Bank Board has had a lot of problems with AY, and is thinking ~~of taking~~ disciplinary action against it.

Black: Not for its actions here. Primarily because of its Texas office, which has never met a direct investment. They think everything is a loan. This has quite an effect on the income you can claim.

Empire of Texas is a perfect example. It did acquisition, development and construction loans that were really direct investments because the borrowers had no equity in the projects. It booked all the points and fees up front as income. It created interest reserves so the loans couldn't go into default. It provided takeout financing and then end loans so that the loans couldn't go into default for many years. All of this led it to report record profits. Even when the losses started, as long as it grew fast enough and could book new income up front it could remain "profitable." It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast. . . .

Black: Yes, I can tell you from my experience as former litigation director, where I sued for many of these failed shops, that it is routine for the accounting firm to serve as management's expert witnesses and adopt an extremely adversarial tone.

What it all comes down to is that Congress has been on our a--, and many of us think rightly, to act before an institution fails. That's what we're doing here, and I think it is laudable.

DeConcini: What?

Black: Laudable.

Sanchez: Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent.

Patriarca: They would be taken over by the regulators if they were a bank.

DeConcini: You're saying they're insolvent.

Black: They'd be insolvent on a tangible capital basis, which is basically the capital standard for banks.

DeConcini: They'd be insolvent if they were a bank, but by law you have to use a regulatory capital standards, and under that standard they have $25 million in capital. Is that what you're saying?

Patriarca: By regulation we have adopted a regulatory capital standard.

DeConcini: And you'll take control of them if they fail your net worth standard, you'll take operational control of them.

Cirona: That's speculative. We'd take steps to reduce their risk exposure.

Riegle: What would you require them to sell?

Cirona: We'd probably have them decrease their growth. Time and again we've found rapid growth associated with loss. Lincoln has grown rapidly.

Black: Are you sure you want to talk about this? We haven't made any recommendation to the Bank Board yet. The Bank Board decides what action to take. These are very confidential matters.

DeConcini: No, then we don't want to go into it. We were just asking very hypothetically, and that's how you (indicating Mr. Cirona) were responding.

Cirona: That's right.

DeConcini: Can we do something other than liquidate them?

Cirona: I hesitate to tell an association what to do. We're not in control of Lincoln, and won't be. We want to work the problem out.

McCain: Have they tried to work it out?

Cirona: We've met with them nume[illegible] times. I've never seen such cantankerous behavior. At one point they said our examiners couldn't get any association documents unless they made the request through Lincoln's ~~New York~~ litigation counsel.

Riegle: Well, that does disturb me, when you have to go through New York litigation counsel. What could they do? Is it too late?

Cirona: It's never too late.

McCain: What's the best approach? Voluntary guidelines instead of compulsory order?

DeConcini: How long will it take you to finish the exam?

Patriarca: Ten days.

Glenn: Have they been told what you've told us?

Patriarca: We provided them with our views and gave them every opportunity to have us hear what they had to say. We gave them our classification of asset materials and went through them loan by loan. This is one of the reasons the exam has taken so long. . . .

DeConcini: . . . The criminality surprises me. We're not interested in discussing those issues. Our premise was that we had a viable institution concerned that it was being over-regulated.

Glenn: What can we say to Lincoln?

Black: Nothing with regard to the criminal referral. They haven't, and won't be told by us that we're making one.

Glenn: You haven't told them?

Black: No. Justice would skin us alive if we did. Those referrals are very confidential. We can't prosecute anyone ourselves. All we can do is refer it to Justice.

DeConcini: They make their own decision whether to prosecute?

Black: Yes. I also want to mention that we are already investigating Arthur Andersen because of their role in the file stuffing. We don't know whether they knew the purpose for which they were preparing the materials. . . .

With regard to what you can say to Lincoln, you might want to simply have them call us. If you really want to talk to them you can say that it will take us 7 to 10 days to finish the exam.

Riegle: Is this institution so far gone that it can't be salvaged?

Patriarca: I don't know. They've got enough risky assets on their books that a little bad luck could nail them. You can't remove the risk of what they already have. You can reduce what new risks they would otherwise add on.

Black: They have huge holdings in Tucson and Phoenix. The market can't absorb them for many years. You said earlier that ACC was extremely good, but ACC has gotten out of its former primary activity, homebuilding . . . They also had to get out of their second leading activity, mortgage banking. They're now down to Arizona.

That's not a bad market, but no one knows how well it will do over the many years that it would take to absorb such huge holdings in Tucson and Phoenix.

DeConcini: So you don't know what you'd do with the property even if you took them over?

Black: Bill Black doesn't. Bill Black is a lawyer. We hire experts to do this work. Our study of their Arizona holding was done by top experts. Our study of below investment grade corporate debt securities; what folks usually call junk bonds, but I avoid it because I don't know where you stand on such bonds; was done by top outside experts. I see in this Arthur Young letter that they criticize us for having an accountant with "only" eight years of experience ~~well I think~~ . . . I don't see how you can claim eight years as inexperienced. But we didn't simply rely on him, we had, wasn't it Kenneth?

Sanchez: Yes, Kenneth, Leventhal.

Black: We h[illegible] Kenneth, Leventhal, outside accountants, work on this. These are also some of the reasons the exam took time.

Patriarca: I think my colleague Mr. Black put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

~~Riegle: Well~~, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

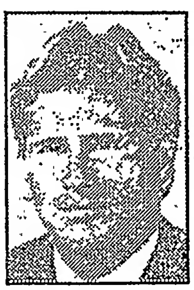
THE REGULATORS

Michael Patriarca

"It's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt."

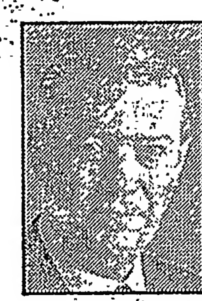
William Black

"It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast."



Richard Sanchez

"Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent."



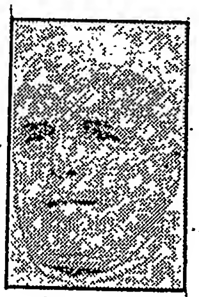
James Cirona

"This meeting is very unusual, to discuss a particular company . . . These underwriting practices violate our regulatory guidelines . . . This is a ticking time bomb."

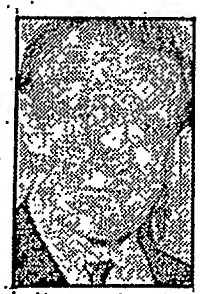
THE SENATORS

Sen. John Glenn
"To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on?"

Sen. Dennis DeConcini
"What's wrong with this if they're willing to clean up their act?"



Sen. John McCain
"Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?"



Sen. Donald Riegle
"Is this institution so far gone that it can't be salvaged?"

Sen. Alan Cranston
"I just want to say that I share the concerns of the other senators on this subject."

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DeConcini invested in Lincoln

Campaign cash put into thrift

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — While Charles H Keating Jr. was investing in the political fortunes of Sen. Dennis DeConcini, the Arizona Democrat was investing in Keating's thrift, records show.

DeConcini's 1988 senatorial campaign invested $100,000 in a jumbo 240-day certificate of deposit at the Irvine, Calif.-based Lincoln Savings and Loan in fall 1987, according to documents obtained by *The Arizona Republic.*

It was the only out-of-state deposit made by DeConcini's $3.2 million campaign. The campaign received about $48,000 from Keating and his associates for last year's re-election bid.

DeConcini spokesman Bob Maynes said the senator has a policy of spreading around his campaign war

— See DECONCINI, page A7

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DeConcini invested in Keating thrift in '88

— DECONCINI, *from page A1*

chest by depositing similar amounts in various Arizona banks and thrifts.

Maynes said DeConcini considered Lincoln an Arizona institution because it had $1.3 billion invested in Arizona. Lincoln was owned by Keating's Phoenix-based American Continental Corp. until federal regulators seized the thrift in April.

Although DeConcini's investment was entirely legal, it was unusual because of its unconventional eight-month maturity period. Also, the senator allowed the certificate to mature and then waited one month before doing anything with the funds.

The interest paid on the certificate of deposit was about average. The 240-day certificate earned 7.45 percent, and then earned 5.5 percent when it was moved in May 1988 to a regular savings account for one month, according to congressional sources.

Interest totaled $5,444

At the time, $100,000 certificates of deposits nationally were earning 7.33 percent for six months and 7.66 percent for 12 months.

DeConcini's certificate earned $4,898.63, but by the time the funds were transfered from the California thrift to First Interstate Bank of Arizona in Phoenix on June 8, 1988, the total interest amounted to $5,444.90, the records show.

The interest earnings increased slightly because DeConcini's then-campaign treasurer, Thomas Karlsen, withdrew the funds a month after the certificate matured. During that month, Lincoln moved the $100,000 plus interest into the 5.5 percent standard savings account, where it earned an additional $546.27.

A June 6, 1988, note obtained by *The Republic* asked that the funds be transferred by wire to Arizona.

"Thanks so much for everything," Karlsen wrote to a Lincoln bank manager. "Unfortunately, the campaign is under way, and the funds are needed."

Karlsen is facing mail-fraud charges stemming from the alleged theft of $500,000 from DeConcini's campaign in an unrelated issue.

Fred Eiland, spokesman for the Federal Election Commission, said election laws allow campaigns to deposit contributions across state lines as long as the campaign properly reports its earnings, as the DeConcini campaign did.

Deposit raises questions

The deposit has been questioned privately by some members of the House Banking Committee, which has been probing the record collapse of Lincoln. Lincoln was seized by regulators in April, and the collapse is expected to cost taxpayers more than $2.5 billion.

Documents regarding DeConcini's transaction have been obtained and reviewed by the Banking Committee, sources said.

Among questions committee members have considered is whether Lincoln solicited out-of-state funds from DeConcini. The California Division of Savings and Loans, that state's thrift-regulatory agency, sanctioned Lincoln on Dec. 20, 1988, for illegally soliciting deposits in Arizona through American Continental.

Maynes said the funds were not solicited by Lincoln.

He said DeConcini made similar investments at five Arizona banks and four Arizona thrifts during the 1988 campaign.

The banks were Valley National, First Interstate, Arizona Bank, United Bank and Great Western Bank. The thrifts were Pima Savings, Western Savings, MeraBank and Great American Bank.

'Keating Five' probed

The FBI and the Senate Ethics Committee is scrutinizing the political relationship that DeConcini and four other senators, including Arizona Republican John McCain, forged with Keating.

The ethics panel is examining whether the senators interceded with federal thrift regulators in Keating's behalf in return for $1.4 million that Keating poured into their campaigns.

Both Arizona senators and Sens. Alan Cranston of California and John Glenn of Ohio met with the nation's top thrift regulator, Edwin Gray, in Keating's behalf during an unusual meeting in DeConcini's office April 2, 1987. The senators, joined by Sen. Donald Riegle, D-Mich., then met with San Francisco regulators a week later and made another pitch to get regulators off Keating's back.

As late as April, DeConcini called a top California thrift official to help Keating after having made earlier calls to federal officials seeking their clout to help Keating sell the troubled thrift.

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Dismissal of S&L regulator is urged

Bush supports embattled Wall

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocates and thrift groups Wednesday increased pressure on President Bush to fire M. Danny Wall as the nation's top thrift regulator because of his oversight of Lincoln Savings and Loan.

Wall ignored the renewed pleas for his ouster, and the White House stuck to its official position that no decision has been made to relieve Wall as director of the Office of Thrift Supervision.

Top members of Congress have called for Wall's firing because of Lincoln's collapse and the crisis in the nation's savings-and-loan industry. Several groups added their names Wednesday to the list of those wanting Wall gone.

Citizens Against Government Waste, Ralph Nader's Public Citizen organization, the National Taxpayers Union Foundation, and nationally known thrift analyst Bert Ely said at a joint press conference that Wall's mishandling of the S&L crisis requires his removal.

"The amount of money that has been lost in this thing, people just do not comprehend," taxpayers-foundation Chairman James Davidson said.

"It's more than it took to build the interstate highway system. We could rebuild the interstate highway system with the money that has been poured into this black hole for the S&Ls.

"Every time you sit in a traffic jam for the rest of your life, think of the fact that you don't need to be there if these people had not whittled away these hundreds of billions. This is more than the cost of the Vietnam War. We should have a memorial on the mall for this lost money."

The S&L crisis is expected to cost taxpayers at least $150 billion. The direct cost of the Vietnam War has been estimated at $140.6 billion, according to the Encyclopedia of American Economic History.

Davidson and the others stressed Lincoln's failure, as well as the overall thrift crisis, as justification for Wall to either quit or be fired. They joined earlier calls for his ouster from Senate Majority Leader George Mitchell, D-Maine; *The Wall Street Journal*; and House Banking Committee Chairman Henry Gonzalez, D-Texas.

But Wall spokesman Karl Hoyle said his boss, who headed the Federal Home Loan Bank Board until the

— See BUSH, page D7

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FBI/DOJ

Bush urged to fire S&L regulator over Lincoln debacle

— BUSH, *from page D1*

Office of Thrift Supervision took its place, should be lauded for his performance.

"Dan's job was to salvage what was left of the industry, to set it back straight, to return it back to some kind of working order," Hoyle said.

Hoyle said Wall had not been contacted by the White House or by his superiors at the Treasury Department about resigning.

Bush said earlier this month that he would consider replacing Wall if he found him to be at fault, but a few days later, the administration said it had no intention of pushing Wall out.

White House spokesman Marlin Fitzwater repeated that stance Wednesday morning, saying "There's been no consideration of Mr. Wall's tenure."

Wall has become a lightning rod for criticism of the government's handling of the S&L crisis, and recently concluded House hearings on Lincoln's collapse led to the renewed calls for Wall's ouster.

Wall, who testified Tuesday before the House Banking Committee, said he had moved as quickly as possible to close Irvine, ~~Calif.-based~~ Lincoln and denied that he hesitated because of pressure from five senators, including Arizona's.

But the groups calling for Wall's ouster said Wednesday that Wall had to have been influenced by the intense interest that those senators exhibited in how Charles H. Keating Jr. and his Lincoln thrift were being treated.

"When you have that many senators who are ganging up together, it has an effect," Public Citizen President Joan Claybrook said.

"It is a very inappropriate thing for them to have done."

The five senators — ~~Dennis~~ DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. — met with federal regulators in April 1987 to ask why their examination of Lincoln was taking so long.

All five, who now are under scrutiny by the Senate Ethics Committee and the FBI, have denied any wrongdoing.

The senators met twice in DeConcini's office on regulators' examination of Lincoln, and DeConcini and Cranston tried to persuade officials as late as last spring to help Keating sell his thrift rather than let it be seized by the government.

Those efforts failed, and regulators took over Lincoln on April 14.

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Keating case a raging fire for senators

So, are Arizona Sens. Dennis DeConcini and John McCain *really* feeling heat over the Keating-Lincoln Savings fiasco, or is this a one-alarm fire stoked by the local media?

It's a forest fire.

The fact that cavalier Charlie's shenanigans became the subject of nationally televised congressional hearings ought to be the first clue.

If that doesn't convince you, take a look at the actions of the embarrassed senators who went to bat for Keating. And at the exposure the whole mess is getting on television, newspapers and magazines all over the world.

- The London-based *Economist* magazine went so far this week as to call the Lincoln Savings debacle the Iran-contra affair of the U.S. thrift industry.
- The Keating calamity regularly makes network news and has been spotlighted in the past two weeks on the *MacNeil Lehrer Report, Nightline, This Week With David Brinkley* and National Public Radio's *Morning Edition.*
- Each of the "Keating Five" senators has hired hot-shot Washington lawyers. Most specialize in white-collar crime.
- The conduct of the five senators — Democrats DeConcini, Donald Riegle of Michigan, Alan Cranston of California, John Glenn of Ohio and Republican McCain — has provided fodder for front-page

KEVEN WILLEY
Political Columnist

stories and stinging editorials in newspapers across the country.

Reform is the issue

With any luck, this imbroglio will lead to campaign-finance reform. That's really the big issue here. We've simply created a system that rewards elected officials who prostitute themselves for special interests, and it's a system that desperately needs overhauling.

In the meantime, you probably shouldn't bet the house and kids that Keating will ever do time over this. Not with his coterie of attorneys and the way our justice system works.

But it's pretty clear that the Keating Five have been severely damaged by the whole episode.

Wagging tongues already contend that the debacle has shattered McCain's dreams of running for president and that DeConcini will make his third term his last. It's far too early to tell — McCain's not up for re-election until 1992, and DeConcini not until 1994 — but the senators' own actions seem to mirror these fears.

Of the five, McCain has been by far the most open in his damage-control efforts, starting with his unusual 90-minute October news conference in Phoenix. Since then, he has focused much of his attention nationally, accepting nearly every invitation to appear on national news programs, including most recently the Brinkley show and *Nightline.*

Clearly, he's worried about his national image.

DeConcini, meanwhile, has targeted his efforts on Arizona. He's done scads of interviews with broadcast and print media.

DeConcini, who's always excelled in constituent service, knows where his bread is buttered.

Other strategies

Other senators have adopted their own strategies.

Riegle, for example, has been among the most tight-lipped. And he's taking his licks for it.

Riegle's "reluctance to divulge the exact role he played in this fiasco is disheartening and should give even his staunchest backers reason to pause," the *Grand Rapids Press* editorialized recently.

"At the least, the senator exercised bad judgment . . ." the editorial continued. "At the worst, he's guilty of selling his position."

In Ohio, *The Columbus Dispatch* was hard on Glenn last week, saying, "For Sen. Glenn, it's no 'national hero' these days; it's 'purchased politician' or one of the 'Keating five' or 'senator for sale.' "

Dayton Daily News Editor Max Jennings, formerly of *The Mesa Tribune,* was more charitable, saying, "Glenn and the rest got sandbagged. That happens in politics, and Glenn can be forgiven for that, but only if he acknowledges what happened and washes his hands of the Keating money."

In California, pollster Mervin Field says Cranston is in "deep trouble" politically because of congressional testimony from elderly residents who blame him for the loss of their life savings in Keating-related investments.

The issue is more partisan in other states. Michigan's GOP chairman called for Riegle to step down as chairman of the Senate Banking Committee. Republicans there and in California and Ohio can hardly contain their glee as Riegle, Cranston and Glenn struggle to explain why voters should not assume that the lawmakers placed the interests of a high-flying "fat cat" above the little people who will be paying the tab for Lincoln's collapse for decades.

In Arizona, it's tough for either party to take potshots because both parties' senators are involved.

Yep, it's a raging forest fire. And you can bet it's going to blacken a lot of political rangeland before it's through.

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Gray blames DeConcini, Cranston

WASHINGTON (AP) — Sens. Dennis DeConcini and Alan Cranston bear more blame than three other senators accused with them of improperly intervening with regulators in connection with the Lincoln Savings and Loan Association, a former top regulator says.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, on Sunday insisted that the five lawmakers improperly pressured him as a favor to Lincoln owner Charles H. Keating Jr. "They were asking me to withdraw a regulation for their friend," Gray said. "I said, 'We're not going to do that.'"

Two congressional committees are investigating the failure of the Irvine, Calif.-based Lincoln S&L, which is expected to cost the taxpayers up to $2.5 billion — $50 for each American family, according to Rep. Jim Leach, R-Iowa.

The five senators intervened with federal regulators in 1987 on behalf of Lincoln and Keating, who gave them a total of $1.3 million in campaign and other political funds. The other three are Sens. John Glenn, D-Ohio; Donald W. Riegle Jr., D-Mich.; and John McCain, R-Ariz.

All five senators have said they violated no law or rule of the Senate, and they have disputed Gray's account of the 1987 meetings.

But the Senate Ethics Committee two weeks ago appointed an outside counsel to investigate charges that their intervention constituted a conflict of interest.

Asked on ABC's "This Week With David Brinkley" whether any of the senators were "more culpable than others," Gray said, "Yes absolutely ... Senator DeConcini, who made the proposal, who has continued to stonewall and deny it. And Senator Cranston," who received $850,000 in corporate donations from Keating for three voter registration projects he favored after the senators' two 1987 meetings with federal regulators.

Meanwhile, M. Danny Wall, the nation's chief savings and loan regulator, acknowledged on the Brinkley show that he made mistakes in connection with the massive Lincoln S&L failure, but said he has no plan "at this point" to resign.

Wall, head of the Office of Thrift Supervision, said he believed that as congressional investigations proceed, "time will indeed be kind to us." President Bush said two weeks ago he had not ruled out replacing Wall.

McCain and Glenn insisted on the Brinkley show that they did nothing wrong in connection with the Lincoln case.

"Any implication that I have done something wrong in this case is just flat wrong, and I resent it with every fiber in my being," Glenn said.

McCain said, "It was a serious mistake on my part" to have not immediately made reimbursements for trips taken on Keating's corporate plane, but he insisted that inquiries eventually will clear him of any rule-breaking.

"I did nothing that I wouldn't do for any major employer, or economic factor, in my state," McCain said.

According to regulators, Lincoln's money — in the form of S&L deposits insured by the federal government — was lost to an elaborate "pyramid scheme" of phony real estate and other deals by Keating.

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What was said at key meeting in Lincoln case

These notes are excerpted from the April 9, 1987, meeting between five U.S. senators and San Francisco-based regulators of the Federal Home Loan Bank Board.

The notes, taken by William K. Black, then-deputy director of the Federal Savings and Loan Insurance Corp., have become a key to the investigation into the collapse of Charles H Keating Jr.'s Lincoln Savings and Loan. They are central to the question of whether the five senators intervened improperly with federal regulators in an attempt to persuade them to ease up on Lincoln following Keating's complaint that the government was unfairly restricting his ability to do business. All five senators received donations from Keating, but deny impropriety.

While extensive, these notes are not an official transcript of the meeting. Nevertheless, they have been examined by the participants and none has disputed their accuracy.

PARTICIPANTS:

WILLIAM K. BLACK, then-deputy director of the Federal Savings and Loan Insurance Corp. (FSLIC).

JAMES CIRONA, president of the Federal Home Loan Bank of San Francisco.

SEN. ALAN CRANSTON, D-Calif.

SEN. DENNIS DECONCINI, D-Ariz.

SEN. JOHN GLENN, D-Ohio.

SEN. JOHN MCCAIN, R-Ariz.

MICHAEL PATRIARCA, Director of Agency Functions, FSLIC.

SEN. DONALD RIEGLE, D-Mich.

RICHARD SANCHEZ, supervisory agent for Lincoln.

DeConcini: . . . We wanted to meet with you because we have determined that potential actions of yours could injure a constituent. This is a particular concern to us because Lincoln is willing to take substantial actions to deal with what we understand to be your concerns. Lincoln is prepared to go into a major home loan program — up to 55 percent of its assets. We understand that that's what the Bank Board wants S&Ls to do. It's prepared to limit its high risk bond holdings and real estate investments. It's even willing to phase-out of the insurance process if you wish. They need to deal with, one, the effect of our reg

— See NOTES, page C6

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Notes from key meeting excerpted

—NOTES, *from page C1*

Lincoln is a viable organization. It made $49 million last year even more the year before. They fear falling below 3 percent and becoming subject to your regulatory control of the operations of their association. They have two major disagreements with you. First, with regard to direct investment. Second, on your reappraisal. They're suing against your direct investment regulation. I can't make a judgment on the grandfathering issue. We suggest that the lawsuit be accelerated and that you grant them forbearance while the suit is pending. I know something about the appraisal values . . . of the Federal Home Loan Bank Board. They appear to be grossly unfair. I know the particular property here. My family is in real estate. Lincoln is prepared to reach a compromise value with you.

Cranston: I'm sorry I can't join you, but I have to be on the floor to deal with the bill. I just want to say that I share the concerns of the other senators on this subject. . . .

McCain: . . . One of our jobs as elected officials is to help constituents in a proper fashion. ACC (American Continental Corp.) is a big employer and important to the local economy. I wouldn't want any special favors for them. It's like the Apache helicopter program that Dennis and I are active on. The Army wants to cut back the program. Arizona contractors make major components of the Apache helicopter. We believe that the Apache is important to our national defense. That's why we meet with (name omitted) and try to keep the program alive.

I don't want any part of our conversation to be improper. We asked (Bank Board) Chairman (Edwin J.) Gray about that and he said it wasn't improper to discuss Lincoln. I'd like to mention the appraisal issue. It seems to me, from talking to many folks in Arizona, that there's a problem. Arizona is the second-fastest growing state. Land values are skyrocketing. That has to be taken account of in appraisals. . . .

Glenn: . . . ACC is an Ohio-chartered corporation. I've known them for a long time, but it wouldn't matter if I didn't. Ordinary exams take maybe up to six months. Even the accounting firm says you've taken an unusually adversary view toward Lincoln. To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on? I asked Gray about this. Lincoln has been told numerous times that the exam is being directed to continue by Washington. Gray said this wasn't true.

Riegle: . . . The appearance from a distance is that this thing is out of control and has become a struggle between Keating and Gray, two people I gather who have never even met. The appearance is that it's a fight to a death. This discredits everyone if it becomes the perception. If there are fundamental problems at Lincoln, OK.

I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want professionalism. And your backgrounds attest to that professionalism. But I want not just professionalism, but fairness and the appearance of fairness. So I'm very glad to have this opportunity to hear your side of the story.

Glenn: I'm not trying to get anyone off. If there is wrongdoing I'm on your side. But I don't want any unfairness against a viable entity. . . .

Cirona: First, if there's any fault to be had concerning the length of the examination, it's on my shoulders. We determine how examinations are conducted. Gray never gave me instructions on how to conduct this exam or any other exam. At this meeting you'll hear things that Gray doesn't know.

DeConcini: Did Gray ever talk to you about the examination of Lincoln? . . .

Patriarca: . . . We received no instructions from Gray about the exam of Lincoln. We decide how to do the exam.

Cirona: This meeting is very unusual, to discuss a particular company.

DeConcini: It's very unusual for us to have a company that could be put out of business by its regulators. . . .

Sanchez: An appraisal is an important part of underwriting. It is very important. If you don't do it right you expose yourself to loss. Our 1984 examination showed significant appraisal deficiencies. Mr. Keating promised to correct the problem. Our 1986 examination showed that the problems had not been corrected, that there were huge appraisal problems. There was no meaningful underwriting on most loans. We have independent appraisals. Merrill Lynch appraised the Phoenician. It shows a significant loss. Other loans had similar losses.

DeConcini: Why not get an independent appraiser?

Sanchez: We did.

DeConcini: No, you hired them. Why not get a truly independent one or use arbitration, if you're trying to bend over backwards to be fair. There's no appeal from your reappraisal. Whatever it is you take it.

Sanchez: If it meets our appraisal standards.

Cirona: The Phoenician reappraisal process is not complete. We have received Lincoln's rebuttal and forwarded it to our independent appraisers. . . .

Sanchez: Lincoln had underwriting problems with all of their investments, equity securities, debt securities, land loans and direct real estate investments. It had no loan underwriting policy manual in effect when we began our 1986 exam. When the examiners requested such a manual they were informed that it was being printed. The examiners looked at 52 real estate loans that Lincoln had made since the 1984 exam. There were no credit reports on the borrowers in all 52 of the loan files.

DeConcini: I have trouble with this discussion. Are you saying that their underwriting practices were illegal or just not the best practice?

Cirona: These underwriting practices violate our regulatory guidelines.

Black: They are also an unsafe and unsound practice.

DeConcini: Those are two very different things.

Sanchez: You need credit reports for proper underwriting. . . .

Riegle: . . . Do we have a history of loans to folks with inadequate credit?

Sanchez: $47 million in loans were classified by examiners due to lack of adequate credit to assure repayment of the loans.

Patriarca: They're flying blind on all of their different loans and investments. That's what you do when you don't underwrite. . . .

Glenn: How many loans have gone belly-up?

Sanchez: We don't know at this point how many of the 52 have defaulted. These loans generally [illegible] interest reserves.

Glenn: Well, the interest reserve should have run out on many of these.

Cirona: These are longer-term investments.

Black: I know that Lincoln has refinanced some of these loans.

Glenn: Some people don't do the kind of underwriting you want. Is their judgment good?

Patriarca: That approach might be OK if they were doing it with their own money. They aren't, they're using federally insured deposits.

Riegle: Where's the smoking gun? Where are the losses?

DeConcini: What's wrong with this if they're willing to clean up their act?

Cirona: This is a ticking time bomb.

Sanchez: I had another case which reported strong earnings in 1984. It was insolvent by 1985.

Riegle: These people saved a failing thrift. ACC is reputed to be highly competent.

Black: Lincoln was not a failing thrift before ACC acquired it. It met its net worth requirement. It had returned to profitability before it was acquired. It had one of the lowest ratios of scheduled assets in the 11th District, the area under our jurisdiction. Its losses were caused by an interest spread problem from high interest rates. It, as with most other California thrifts, would have become very profitable as interest rates fall.

DeConcini: I don't know how you can consider it a success story. It lost $24 million in 1982 and 1983. After it was acquired by ACC it made $49 million in one year.

McCain: I haven't gotten an answer to my question about why the exam took so long.

Sanchez: It was an extremely complex examination because of their various investments. The examiners were actually in the institution from March to October — eight months. The asset classification procedure is very time consuming.

McCain: What's the longest exam you ever had before?

Cirona: Some have technically never ended, where we had severe problems with a shop.

McCain: Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?

Glenn: And Arthur Anderson said they withdrew as Lincoln's prior auditor because of your harassment. . . .

Patriarca: I'm relatively new to the savings and loan industry, but I've never seen any bank or S&L that's anything like this. This isn't even close. You can ask my banker you know about these practices. They violate the law and regulations and common sense.

Glenn: What violates the law?

Patriarca: Their direct investments violate the regulation. Then there's the file stuffing. They took undated documents purporting to show underwriting efforts and put them into the files sometimes more than a year after they made the investments.

Glenn: Have you done anything about these violations of law?

Patriarca: We're sending a criminal referral to the Department of Justice. Not maybe, we're sending one. This is an extraordinarily serious matter. It involves a whole range of imprudent actions. I can't tell you strongly enough how serious this is. This is not a profitable institution. Prior year adjustments will reduce the reported $49 million profit. They didn't earn $49 million. Let me give you one example. Lincoln sold a loan with recourse and booked a $12 million profit. The purchaser rescinded the sale, but Lincoln left the $12 million profit on its books. Now, I don't care how many accountants they get to say that's right, it's wrong. The only thing we have as regulators is our credibility. We have to preserve ti.

DeConcini: Why would AY say these things? They have to guard their credibility too. They put the firm's neck out with this letter.

Patriarca: They have a client. The $12 million in earnings was not unwound.

DeConcini: You believe they'd prostitute themselves for a client?

Patriarca: Absolutely, it happens all the time. . . .

Cirona: I also wanted to note that the Bank Board has had a lot of problems with AY, and is thinking of taking disciplinary action against it.

Black: Not for its actions here. Primarily because of its Texas office, which has never met a direct investment. They think everything is a loan. This has quite an effect on the income you can claim.

Empire of Texas is a perfect example. It did acquisition, development and construction loans that were really direct investments because the borrowers had no equity in the projects. It booked all the points and fees up front as income. It created interest reserves so the loans couldn't go into default. It provided takeout financing and then end loans so that the loans couldn't go into default for many years. All of this led it to report record profits. Even when the losses started, as long as it grew fast enough and could book new income up front it could remain "profitable." It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast. . . .

Black: Yes, I can tell you from my experience as former litigation director, where I sued for many of these failed shops, that it is routine for the accounting firm to serve as management's expert witnesses and adopt an extremely adversarial tone.

What it all comes down to is that Congress has been on our a--, and many of us think rightly, to act before an institution fails. That's what we're doing here, and I think it is laudable.

DeConcini: What?

Black: Laudable.

Sanchez: Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent.

Patriarca: They would be taken over by the regulators if they were a bank.

DeConcini: You're saying they're insolvent.

Black: They'd be insolvent on a tangible capital basis, which is basically the capital standard for banks.

DeConcini: They'd be insolvent if they were a bank, but by law you have to use a regulatory capital standards, and under that standard they have $25 million in capital. Is that what you're saying?

Patriarca: By regulation we have adopted a regulatory capital standard.

DeConcini: And you'll take control of them if they fail your net worth standard, you'll take operational control of them.

Cirona: That's speculative. We'd take steps to reduce their risk exposure.

Riegle: What would you require them to sell?

Cirona: We'd probably have them decrease their growth. Time and again we've found rapid growth associated with loss. Lincoln has grown rapidly.

Black: Are you sure you want to talk about this? We haven't made any recommendation to the Bank Board yet. The Bank Board decides what action to take. These are very confidential matters.

DeConcini: No, then we don't want to go into it. We were just asking very hypothetically, and that's how you (indicating Mr. Cirona) were responding.

Cirona: That's right.

DeConcini: Can we do something other than liquidate them?

Cirona: I hesitate to tell an association what to do. We're not in control of Lincoln, and won't be. We want to work the problem out.

McCain: Have they tried to work it out?

Cirona: We've met with them numerous times. I've never seen such cantankerous behavior. At one point, they said our examiners couldn't get any association documents, unless they made the request through Lincoln's ~~New York~~ litigation counsel.

Riegle: Well, that does disturb me, when you have to go through New York litigation counsel. What could they do? Is it too late?

Cirona: It's never too late.

McCain: What's the best approach? Voluntary guidelines instead of compulsory order?

DeConcini: How long will it take you to finish the exam?

Patriarca: Ten days.

Glenn: Have they been told what you've told us?

Patriarca: We provided them with our views and gave them every opportunity to have us hear what they had to say. We gave them our classification of asset materials and went through them loan by loan. This is one of the reasons the exam has taken so long. . . .

DeConcini: . . . The criminality surprises me. We're not interested in discussing those issues. Our premise was that we had a viable institution concerned that it was being over regulated.

Glenn: What can we say to Lincoln?

Black: Nothing with regard to the criminal referral. They haven't, and won't be told by us that we're making one.

Glenn: You haven't told them?

Black: No. Justice would skin us alive if we did. Those referrals are very confidential. We can't prosecute anyone ourselves. All we can do is refer it to Justice.

DeConcini: They make their own decision whether to prosecute?

Black: Yes. I also want to mention that we are already investigating Arthur Andersen because of their role in the file stuffing. We don't know whether they knew the purpose for which they were preparing the materials. . . .

With regard to what you can say to Lincoln, you might want to simply have them call us. If you really want to talk to them you can say that it will take us 7 to 10 days to finish the exam.

Riegle: Is this institution so far gone that it can't be salvaged?

Patriarca: I don't know. They've got enough risky assets on their books that a little bad luck could nail them. You can't remove the risk of what they already have. You can reduce what new risks they would otherwise add on.

Black: They have huge holdings in Tucson and Phoenix. The market can't absorb them for many years. You said earlier that ACC was extremely good, but ACC has gotten out of its former primary activity, homebuilding . . . They also had to get out of their second leading activity, mortgage banking. They're now down to Arizona.

That's not a bad market, but no one knows how well it will do over the many years that it would take to absorb such huge holdings in Tucson and Phoenix.

DeConcini: So you don't know what you'd do with the property even if you took them over?

Black: Bill Black doesn't. Bill Black is a lawyer. We hire experts to do this work. Our study of their Arizona holding was done by top experts. Our study of below investment grade corporate debt securities; what folks usually call junk bonds, but I avoid it because I don't know where you stand on such bonds; was done by top outside experts. I see in this Arthur Young letter that they criticize us for having an accountant with "only" eight years of experience — ~~well I think~~ . . . I don't see how you can claim eight years as inexperienced. But we didn't simply rely on him; we had, wasn't it Kenneth? . . .

Sanchez: Yes, Kenneth, Leventhal.

Black: We had Kenneth, Leventhal, outside accountants, work on this. These are also some of the reasons the exam took time.

Patriarca: I think my colleague Mr. Black put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

Riegle: Well, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

THE REGULATORS

Michael Patriarca

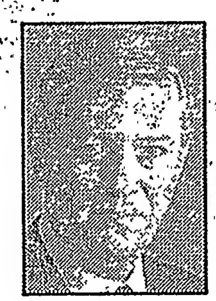
"It's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt."

William Black

"It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast."

Richard Sanchez

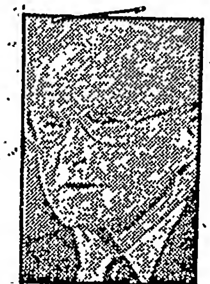
"Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent."



James Cirona

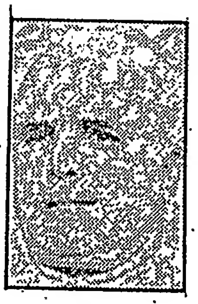
"This meeting is very unusual, to discuss a particular company . . . These underwriting practices violate our regulatory guidelines . . . This is a ticking time bomb."

THE SENATORS

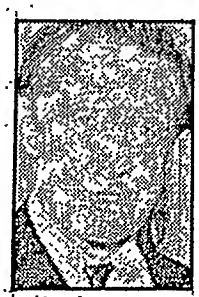


Sen. John Glenn
"To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on?"

Sen. Dennis DeConcini
"What's wrong with this if they're willing to clean up their act?"



Sen. John McCain
"Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?"



Sen. Donald Riegle
"Is this institution so far gone that it can't be salvaged?"

Sen. Alan Cranston
"I just want to say that I share the concerns of the other senators on this subject."

FD-350 (Rev. -81)

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(Mount Clipping in Space Below)

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The Right Man for a Dirty Job

By Paul Gigot

When a final accounting is made for the savings and loan scandal, Dante's Inferno will have a waiting list. The line at Heaven's Gate, on the other hand, may begin and end with Henry Gonzalez.

As chairman of the House Banking Committee, the San Antonio Democrat is responsible for hearings that are providing the first public accounting for $300 billion worth of failed government. In the process, he's done the unthinkable and cast his spotlight not merely on the executive branch, but also on his colleagues in Congress. He's letting the muck fall where it may. Without his persistence, the nation would not be learning all it is about high-stepping banker Charles Keating, his five friends in the Senate, phantom regulator Danny Wall, and influence-peddling-as-usual in Washington.

Is this Congress's Watergate? "I think so," Mr. Gonzalez said in an interview over a 7:45 breakfast last week, only four hours after he'd left the House's last session. "Everybody contributed. The moral laxity—Congress, the executive branch, the private sector, everybody."

Politically Honest

Critics who are quick to bash Congress should also acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Unlike Reps. John Dingell (D., Mich.) or Tom Lantos (D., Calif.), two House inquisitors who blame everything all of the time on everyone but Congress, Mr. Gonzalez is politically honest. He's performing as a public educator, rather than in the typical congressional role of special-interest agitator.

It's a happy accident that Mr. Gonzalez is even in a position to do something about the S&L fiasco. His predecessor as committee chairman, and one of the scandal's main scoundrels, Fernand St Germain, would never have held hearings. ("I think that's safe to say," agrees Mr. Gonzalez, smiling.) Rhode Island voters luckily retired him. Donald Riegle (D., Mich.), Senate banking committee chairman, is one of the "Keating Five." Both the Reagan and Bush administrations have preferred to sweep any blame under the carpet and get on with bleeding taxpayers to pay for the cleanup. Many of his House colleagues are furious with Mr. Gonzalez.

Rep. Henry Gonzalez

The chairman is not the sort to let this no-one-here-but-us-public-servants club get him down. Long a maverick, he is known as the "King of the Special Order" for his long, solo speeches on the House floor. He called for the impeachment of Ronald Reagan after the Grenada invasion and again during Iran-Contra. In the early 1970s, he opposed wage and price controls. He's a New Deal liberal (1988 Americans for Democratic Action rating: 100%), and he did insist on pushing new housing subsidies as part of the S&L bill, a venial sin compared to the Keating crowd. But his liberalism is tempered with a populist, independent streak that gives him the integrity of the unpredictable. In inbred Washington, his idiosyncrasy is a virtue.

An attempt to pacify Mr. Gonzalez in the usual Washington style may even account for his tenacity now. Reading through the Bush administration's S&L reform bill earlier this year, he was offended when he saw that Danny Wall would not have to be reconfirmed as the industry's chief regulator. He thought a round of confirmation hearings would be just the thing to clear the air about what went wrong. But when he objected, he says, a White House official told him, "This is the only way we'll get it through Garn and the Senate." (Two White House officials at the meeting say they don't recall that exchange.)

Critics of Congress should acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Mr. Gonzalez is performing as a public educator, rather than in the typical congressional role of special-interest agitator.

Later, Sen. Jake Garn (R., Utah) invited Mr. Gonzalez for a heart-to-heart in his Capitol hideaway. The subject was again Danny Wall, a former aide to the senator. Mr. Garn didn't want Mr. Wall to be reconfirmed if William Seidman, the chief bank regulator, didn't also have to be confirmed again. The two agreed that both would have to be reconfirmed. But a short time later, Sen. Riegle, the committee chairman, came back to Mr. Gonzalez and

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told him other senators objected to the House telling the Senate what to do: Neither Mr. Seidman nor Mr. Wall would be reconfirmed.

A spokeswoman for Mr. Garn says the senator went out of his way not to lobby either the White House or other senators on Mr. Wall's behalf. But that isn't how Mr. Gonzalez sees it. "There is no question that Garn surrounded Riegle," he says. "At first, Riegle said, 'I'm with you,' but later he said, 'there is serious concern in the Senate about the House telling the Senate who it can confirm.' " Whatever the truth, the Gonzalez hearings are in part the reconfirmation hearings Danny Wall never had.

As for the five senators who met with regulators on behalf of Mr. Keating, Chairman Gonzalez is unsympathetic. He pulls from his pocket a piece of paper quoting a line from former Illinois Sen. Paul Douglas: "A legislator should not immediately conclude that the constituent is always right and the administrator is always wrong, but as far as possible should try to find out the merits of each case and only make such representations as the situation permits."

For Mr. Gonzalez, that's the rub. "Of course, the question is, when does 'the situation permit'? But if a legislator doesn't know the difference by the time he gets to Congress, then it's too late," Mr. Gonzalez says. "I don't care what code of ethics you have." Anyone who doesn't know the difference between genuine "constituent service" and influence peddling probably doesn't belong in Washington. Yet Congress talks about a formal code of ethics almost as a way to justify influence peddling: Whatever isn't expressly illegal is somehow thought to be all right. In Congress, the last refuge of a scoundrel is ethics reform.

Mr. Gonzalez also breaks from the Washington pack by lamenting the perverse incentives of federal deposit insurance. In 1982, he opposed the Garn-St Germain bill that raised the amount of deposits covered per account to $100,000 from $40,000. The effect was to let S&L operators socialize their risk, while keeping profits private.

"We never had one minute of hearings on that," says Mr. Gonzalez. "It was very mysterious the way it happened." Late at night, in a House-Senate conference, Mr. St Germain asked for the $100,000 limit. No one objected—and few in the press even noticed.

The chairman says he's now considering ways to limit deposit insurance, something George Bush's S&L "reform" avoided altogether. He's especially worried because he thinks insurance has created the same disastrous incentives in the banking industry as it did earlier in S&Ls. It's become, he says, "a capital plaything," a taxpayer subsidy to private interests rather than the protection for the little guy it was intended to be. One obstacle to deposit insurance reform will be Rep. Frank Annunzio (D., Ill.), a banking subcommittee chairman who is a long-time pal of the S&L industry. But Mr. Gonzalez says he'll hold hearings on insurance even if Mr. Annunzio objects.

Just the Beginning

Mr. Keating declined to testify last week, so the S&L hearings will be dormant for a period. The banking committee staff is poring over the voluminous record, but Mr. Gonzalez intends to keep going. "This is just the beginning. We're going to have to pursue this," he says. "There's more than just Lincoln," Mr. Keating's failed S&L.

Mr. Gonzalez gets encouragement from his mail, most of which is inspired by C-Span's TV coverage of his hearings. ("I'm inundated," he says.) One letter in particular he prizes is from Raoul Berger, the noted jurist. Mr. Berger urged him on by quoting Winston Churchill: "Ministers have come under obligations to great interests. And it can be presumed or alleged that their votes or speeches have been corrupt." Henry Gonzalez likes the sound of that.

Mr. Gigot writes the Potomac Watch column on Fridays on this page.

FD-350 (Rev. 5-8-81)

DeConcini, McCain sag in 2 polls

Links to Keating are questioned — Babbitt gets boost

By Jerry Kammer
The Arizona Republic

Despite attempts to distance themselves from Charles H Keating Jr., Arizona Sens. Dennis DeConcini and John McCain are getting bad marks from the public for their relationship with the troubled Phoenix financier and developer.

A Rocky Mountain Poll of Maricopa County adults found that less than 10 percent were "very satisfied" with the senators' answers to questions about their connections with Keating.

More than 40 percent said they were "openly dissatisfied," while the remainder were either "partially satisfied" or "unsure."

The Rocky Mountain Poll also found that former Gov. Bruce Babbitt could mount a strong challenge for McCain's Senate seat.

Meanwhile, more than half of those polled statewide by *The Arizona Republic* said they were not familiar with the senators' ties to Keating. But 39 percent described DeConcini's relationship to the chairman of American Continental Corp. as improper while 9 percent said it was proper.

Thirty-five percent said the McCain-Keating relationship was improper, while 9 percent found no fault with it.

Keating, who contributed heavily to the campaigns of both senators, is the target of a $1.1 billion civil-racketeering suit filed in September by federal regulators.

The suit alleges that he and a small group of insiders looted American Continental's thrift, Lincoln Savings and Loan of Irvine, Calif. It claims that Keating improperly used

— See STATE'S, page A6

(Mount Clipping in Space Below)

Charles H Keating Jr. / He is the target of a $1.1 billion civil-racketeering suit filed by federal regulators.

Dennis DeConcini / A spokesman says the results of the two polls were not surprising.

John McCain / His popularity is expected to surge after he tells his side of the story.

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State's senators get bad marks in 2 pollings

— STATE'S, *from page A1*

political influence to delay the federal takeover of Lincoln until April, adding to the cost of a federal bailout expected to reach about $2 billion.

Both polls were conducted before last weekend's revelations that the FBI is investigating the senators' 1987 intervention in Keating's behalf with federal regulators who had clashed with Keating over his management of the thrift.

One question in The Arizona Republic Poll hinged on revelations that two DeConcini aides, Ron Ober and Earl Katz, had amassed more than $50 million in business loans from Lincoln.

By a ratio of nearly 7-to-1, those responding to The Arizona Republic Poll said it is not proper for a senator's aides to have significant business dealings with their campaign contributors.

Two other questions focused on a series of trips McCain and his family took in 1984-86 to Keating's vacation home in the Bahamas, flying in aircraft owned or leased by American Continental. McCain says that because of a record-keeping oversight, he failed to pay for the trips until this year.

Seventy-two percent said it was not proper for McCain to accept free flights on Keating's aircraft, while 62 percent said it was not proper for McCain to vacation at Keating's home.

The Rocky Mountain pollsters concluded that although DeConcini "appears to have suffered the most" from his Keating ties, "it may be Senator McCain who is most at risk since his re-election comes up again sooner . . ."

McCain faces a 1992 contest for a second term in the Senate, while DeConcini won his third term last year. He will be up for re-election in 1994.

Asked to choose between Babbitt and McCain in a hypothetical Senate race, 42 percent said they would vote for the former Democratic governor, while 37 percent opted for the Republican incumbent. Twenty-one percent said they were not sure.

The Rocky Mountain pollsters found the results significant because "Republican candidates must usually pile up a strong vote" in Maricopa County, where the GOP has a 53 percent to 36 percent lead in voter registration.

Scott Celley, McCain's spokesman, said he is not surprised at the drubbing the senator took in the two polls.

"The regular appearance of Senator McCain's name in conjunction with the other senators that were involved in this savings and loan business, and the constant flow of new and different stories about the whole savings and loan issue certainly would be expected to have a detrimental impact of some sort," Celley said.

However, he said he expects McCain's popularity to surge after he has time "to get around the state and tell his side of the story."

Celley said McCain regrets the vacations in the aftershock of the publicity surrounding his connection with Keating.

"At the time, they were friends," Celley said of Keating and McCain.

Bob Maynes, spokesman for DeConcini also said he is not surprised by the poll results.

"One would certainly expect a drop in job ratings, given the frequency of negative stories in the major Arizona media," Maynes said. "Actually, it is a little bit surprising that the decline was not further."

He said DeConcini went to "bat for someone who may have broken the law, and that criticism is inevitable."

Contributing to this article was Carol Sowers of *The Arizona Republic.*

POLL METHOD

The Arizona Republic Poll is based on telephone interviews conducted Nov. 2-5 with 809 Arizona adults.

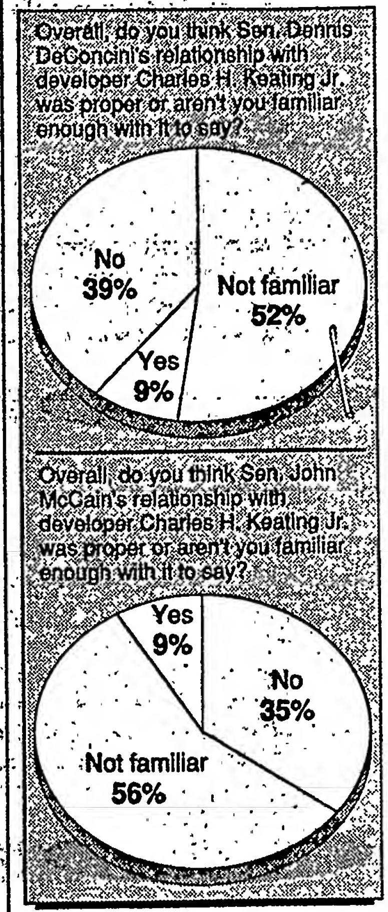
Random-digit dialing was used to select the sample to ensure that unlisted telephone numbers were included.

In theory, in 19 cases out of 20, the results based on such samples will differ by no more than 3 percentage points in either direction from results of interviews with all Arizona adults in telephone households.

The margin of error for subgroups within the sample may be larger.

ETHICS IN GOVERNMENT
THE ARIZONA REPUBLIC POLL

A telephone poll of 809 adults living in Arizona.



The Arizona Republic

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(Mount Clipping in Space Below)

FBI probing 5 senators

Keating links focus — thrift regulator could be ousted

Republic Wire Services

WASHINGTON — The FBI has begun an investigation of the role five senators played in intervening with regulators in 1987 in behalf of controversial Arizona financial executive Charles H Keating Jr., according to sources who were questioned.

And in an interview published Saturday, President Bush, commenting on the Lincoln Savings and Loan scandal for the first time, said that he is considering whether to remove M. Danny Wall as the nation's chief thrift regulator in the wake of a congressional investigation.

FBI agents interviewed Edwin Gray, former head of the Federal Home Loan Bank Board, and several of his top aides, the sources said, providing the first indication that the Justice Department is inquiring about the conduct of the five senators. An FBI spokesman declined to comment Saturday.

The senators being investigated are Dennis DeConcini and John McCain of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan. All are Democrats except McCain, who is a Republican. The Senate Ethics Committee has asked the senators to respond to complaints that their intervention was "prompted" by

— See FBI, page A8

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FBI probes senators in Keating S&L case

FBI, *from page A1*

$1.3 million in campaign contributions and corporate funds raised for them and their causes by Keating, the multimillionaire Phoenix developer and financier who is chairman of American Continental Corp. and the former head of Lincoln Savings and Loan.

For campaign contributions, McCain received $112,000, Riegle received $76,000, DeConcini and Cranston both received $48,000 and Glenn received $34,000. In addition, Cranston solicited $850,000 in corporate contributions for three voter-registration projects and Glenn accepted a $200,000 corporate contribution for his political-action committee.

The senators have insisted they did nothing improper.

Fateful meeting

Four of the senators on April 2, 1987, met alone with Gray, then the government's top savings-and-loan regulator, to question his agency's treatment of Keating's Lincoln Savings and Loan of Irvine, Calif. Riegle, who did not attend that meeting, joined the other four at a second meeting a week later with Gray's subordinates.

Bush said that if he decides that part of the nationwide savings-and-loan crisis occurred because federal regulators were not aggressive enough in cracking down on problem thrifts, he will make changes, adding, "I have to do that."

He acknowledged that he is concerned that the credibility of the government's regulatory structure has been threatened but said he does not want to prejudge Wall.

But the president praised Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, for his tenacity in pursuing an inquiry into the collapse of Lincoln, expected to be the nation's biggest thrift failure, with an estimated cleanup cost of $2 billion.

Although he saluted Wall's chief accuser, the president did not say a single good word about Wall, who is accused of blocking efforts by federal regulators in San Francisco to seize Lincoln in 1987 on grounds that they were too "zealous."

Wall, who also headed the Federal Home Loan Bank Board from July 1987 until it was replaced by the Office of Thrift Supervision last August, could not be reached Saturday for comment.

Touching a gray area

The Justice Department's decision to pursue an inquiry of the senators is unusual in that it touches on a gray ethical area, the actions members of Congress take in behalf of contributors. The question is just how far these actions can go.

The focus of the FBI questioning last week, the sources said, was the first meeting, on April 2, 1987. Gray testified to a congressional committee last week that DeConcini asked him at that meeting to ease regulatory pressure on Lincoln, saying that in return, Lincoln would modify its lending practices, which regulators considered far too risky. Gray declined to comment Saturday.

DeConcini and the other senators dispute Gray's statement that they sought to negotiate favorable treatment for Lincoln at the April 1987 meeting. DeConcini said its thrust was to express the senators' concerns that an examination of Lincoln's books was taking too long and to "get off their (Lincoln's) backs" if the thrift hadn't violated the law.

The initial questioning that occurred last week is typically used by prosecutors to determine whether there are grounds to present evidence to a grand jury.

Spokesmen for Cranston, DeConcini and McCain said Saturday that the FBI hadn't contacted their offices. Cranston and McCain have volunteered to meet with the FBI. Glenn and Riegle could not be reached for comment.

Murray S. Flander, Cranston's spokesman, said, "Once again, everything is emanating from the regulators. They are the accusers. . . . How do we know what they're telling us is correct?"

'I'm not closing the door'

Wall also met privately three times with Keating, the Arizona financier who controlled Lincoln's parent firm, while the case was pending. The parent company filed for Bankruptcy Court protection one day before the government finally seized Lincoln in April.

In a series of interviews, Wall has defended his actions as prudent oversight and charged that Gonzalez's investigation has been unfair and one-sided. He and Keating are scheduled to testify before the committee Nov. 21.

Asked whether he were leaving the door open to replace Wall, Bush replied, "I didn't say that, but I'm not closing the door on it. I just don't know at this juncture.

"But when the question is put, 'If part of the savings-and-loan problem proves to be management or regulation people that aren't aggressive enough, would you make changes?' the answer will be 'yes.' I have to do that."

Bush added, however, "I just don't want to . . . prejudge on my part the Wall situation at this time."

Compiled from reports by The Washington Post and the Los Angeles Times.

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Investors blame losses on 'Keating 5'

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Tearful investors who claimed that Arizona developer Charles H Keating Jr. bilked them out of their life savings blamed their losses on five senators Tuesday and branded them the "Keating Five."

Those and other investors would not have become victims if savings and loans regulators hadn't undermined a securities investigation, the head of the Securities and Exchange Commission told the House Banking Committee, which is investigating the collapse of Keating's Lincoln Savings and Loan, based in Irvine, Calif.

The three California investors who testified during the panel's fourth round of hearings were hardest on Sen. Alan Cranston, D-Calif., but none of the other senators, including Arizona's John McCain and Dennis DeConcini, was spared.

"Up against the likes of Charles Keating and the influence he was able to buy from elected officials and others in high office, we didn't stand a chance," said Shirley Lampel, a Tustin, Calif., widow who said she lost $30,000.

"We had been targeted by Keating, and with the help of the 'Keating Five' and others, the henhouse door

See 'KEATING 5', page A2

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'Keating 5' blamed for losses

KEATING 5', from page A1

was open, the fox got in."

The five senators are Cranston, DeConcini, McCain, Don Riegle of Michigan and John Glenn of Ohio. All but McCain are Democrats.

The three investors were among 23,000 people who bought more than $230 million in unsecured debentures by American Continental Corp., the Phoenix-based parent of Lincoln. Those debentures, known as junk bonds, proved worthless.

The bonds were sold in the lobby of Keating's thrift until California regulators halted that practice in August 1988. The three investors said Lincoln officials told them that the debentures were federally insured.

The testimony was given as SEC Chairman Richard C. Breeden revealed that the agency has stepped up its investigation of "possible accounting fraud" and questionable bond-selling practices by American Continental.

Breeden also said a May 1988 "memorandum of understanding" between the Federal Home Loan Bank Board and Lincoln gave American Continental a powerful legal tool to resist the SEC's probe into whether the company had filed false financial statements.

According to Breeden, the memorandum "said in essence that the financial statements were all right," allowing American Continental to argue that the SEC investigation should be dropped.

Phoenix meeting reported

Also Tuesday, the *American Banker* newspaper reported that Riegle flew to Phoenix and met with Keating in March 1987, less than a month before the senators tried to intercede with federal regulators in Keating's behalf.

Later that month, Riegle received $66,100 from Keating and his supporters.

Riegle, chairman of the Senate Banking Committee, has portrayed himself as an insignificant player in the Keating affair. He didn't tell the Senate Ethics Committee about the Phoenix meeting or about others he held concerning Lincoln's troubles.

On Monday, Riegle stormed to McCain's office when a Senate page inadvertently delivered to McCain's office a 2-inch-high stack of Riegle's documents concerning Keating, congressional sources said.

The documents apparently included Riegle's handwritten recollection of several 1987 meetings with regulators and the other senators, they said.

The foul-up occurred because McCain's mail room has the same suite number as Riegle's, but they are in different buildings.

Riegle, DeConcini and McCain have been pointing fingers at each other over who set up a meeting between the five senators and a top thrift regulator April 2, 1987. Riegle said he attended a second meeting with the regulator, on April 9, 1987, only as a banking specialist.

But both Arizona senators have said Riegle was the driving force behind the April 2 meeting.

At Tuesday's hearing, committee Chairman Henry Gonzalez, D-Texas, revealed that former SEC Commissioner Barbara Thomas had received a $250,000 loan with "unusual" and favorable terms from Keating.

The loan was disclosed amid testimony that Thomas called the SEC after she had left her post to vouch for Keating, whom she knew was under investigation by the SEC.

She also asked the bank board for confidential information about its investigation of Lincoln, officials said.

WHAT THEY TOLD THE HEARING

Highlights of Tuesday's hearing on the collapse of Lincoln Savings and Loan:

- Three tearful holders of American Continental junk bonds say Lincoln officials assured them the bonds were federally insured.
- Investors brand five senators the "Keating Five" for their intervention in Keating's behalf and blame them partly for their losses.
- The Securities and Exchange Commission says it is expanding its probe of American Continental and Lincoln.
- SEC Chairman Richard C. Breeden says the Federal Home Loan Bank Board last year signed a memorandum of understanding that allowed American Continental to resist the agency's investigation.

Next hearing: Tuesday.

Witnesses scheduled: Charles H. Keating Jr., M. Danny Wall, director of the Office of Thrift Supervision.

'Image of security'

Breeden said the SEC had no authority to stop American Continental from selling the debentures in the lobby of the thrift. But he acknowledged that the "federally insured" seal on Lincoln's door "was designed to create this image of security."

He also told the panel that it was unusual, but not unheard of, for a firm to issue a debt sale that large without an independent underwriter.

The three investors testified that they were not told that the debentures weren't underwritten by a Wall Street investment firm. They also did not receive a prospectus, as required by law, explaining the risks.

"On the door ... I saw 'FSLIC' (Federal Savings and Loan Insurance Corp.) — how reassuring," Lampel said. "The investment was described as safe and solid. I had no fear."

Connie Wicksman, a 78-year-old immigrant from England who lives in Glendale, Calif., blamed Cranston.

"I felt that he was the one who really swindled us, because he should have told the papers that he was getting all this money and wasn't taking care of us," she said.

A Cranston spokesman told reporters that the senator had done nothing wrong, and "there is nothing to feel responsible about."

Cranston and affiliated voter-registration groups received nearly $1 million in campaign contributions from Keating sources.

The rest of the "Keating Five" also received large contributions from Keating, and each denies impropriety.

Senators named in suit

However, the senators are named in a class-action lawsuit filed by the bondholders against Keating over the sale of the bonds, and the senators' actions in Keating's behalf have come under FBI scrutiny.

Breeden told the committee that when the SEC began investigating American Continental in February 1987, the firm's accountants "stonewalled" requests for documents.

When the SEC subpoenaed the documents, critical areas were obliterated by rubber-stamp marks that said the information was confidential.

Committee members expressed concern that accountants for Arthur Young & Co. had given American Continental and Lincoln Savings clean bills of health when government auditors were checking into the firms.

But representatives of Arthur Young, which now is called Ernst & Young, on Tuesday denied any wrongdoing.

An Arthur Young official said his firm and Keating agreed in 1988 to stop handling American Continental's books after Keating tried to have one accountant removed from the account.

Arthur Young's co-chief executive, William Gladstone, said he refused.

Shirley Lampel, a Tustin, Calif., widow, displays a $30,000 certificate she purchased from American Continental Corp. She said she lost the $30,000. She said, "We had been targeted by (American Continental Chairman Charles H) Keating, and with the help of the 'Keating Five' and others, the henhouse door was open, the fox got in."

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REVIEW & OUTLOOK

Congress's Watergate

Back around the time of Watergate, Congress enacted various laws—affecting the budget, political campaigns, ethics—that weakened the presidency while aggrandizing its own political power. The country is now getting a pretty clear idea of why the Founding Fathers worried about what happens to men when they get their hands on unchecked political power.

The American Revolution was fought in the name of containing the powers of kings, of course, and thus the sentiment of the new nation was against executive power. But experience quickly demonstrated that in the new form of government the legislature, with the power of the purse, was prone to overreach. See the complaints of Madison and Jefferson in Federalist 48, reprinted alongside.

The legislative branch is in theory checked by the voters, but over the past 15 years it has moved away from this essential discipline. Incumbents command resources that make them almost immune to challengers. Congress enacts laws from which it exempts itself, breeding the notion that Members are in some sense above the laws. One haywire effort to resist this trend was Abscam, the FBI's 1980 bribery investigation of Congress. The Members responded by dragging Justice Department officials in for grueling oversight hearings that made it clear Justice's budget was in danger if it initiated any future probes.

* * *

The end product of these developments is now Congress's most visible attribute—unaccountable power. That in turn has caused abuse of authority and scandal. Now, on the heels of the Jim Wright affair, we have five Senators who are enmeshed in the savings-and-loan scandal. The FBI has launched an investigation of the role the Senators may have played in helping their political benefactor Charles Keating keep federal regulators at bay for two years. The Senators and their federal regulatory allies may not have done anything beyond existing law, but the case focuses ~~much-needed~~ attention on the current Washington system. The delay in closing Mr. Keating's insolvent Lincoln Savings & Loan of California may cost taxpayers $1.5 billion.

This month, viewers of C-SPAN have been getting an eye-opening look at the closed world of how Congress intervenes with executive-branch and independent agencies in a series of extraordinary House Banking Committee hearings. In yesterday's hearing, SEC Chairman Richard Breeden testified that a 1988 agreement between the Federal Home Loan Bank Board, headed by former Senate aide M. Danny Wall, and Lincoln Savings undermined his agency's investigation of Lincoln's financial statements.

The basic accusation is that Alan Cranston of California, Dennis DeConcini and John McCain of Arizona, John Glenn of Ohio and Donald Riegle of Michigan used their political muscle to help delay a federal crackdown on Lincoln, whose chairman was Charles Keating.

It is a commentary on the culture of Washington that it has taken so long for this story to achieve its current prominence. We and Brooks Jackson of our Washington bureau have been writing about it for six

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months. The Arizona Republic, San Francisco Chronicle, Cleveland Plain Dealer and Detroit News have also been probing. But the Capitol Press Corps stirred itself only when a Congressman held a hearing, apparently the local benchmark of news. That said, it should be noted that House Banking Chairman Henry Gonzales of Texas is displaying a lot of courage in taking this on. At yesterday's hearing, he said he planned to carry his investigation of the S&L scandal "beyond Lincoln."

* * *

The Senators say their efforts on Mr. Keatings's behalf were merely "constituent service." All five Senators somehow claimed him as a constituent. An Arizona resident from a prominent Ohio Republican family, Mr. Keating controlled Lincoln in California as well as a large hotel in Michigan.

Senator McCain has likened his intervention with the federal regulators examining Lincoln to "helping the little lady who didn't get her Social Security." But Charles Keating was asking for a lot more than a lost check—and was willing to pay for it. He and his allies gave the Senators a total of $1.4 million for their campaigns and their pet political causes.

Darry Sragow, Senator Cranston's 1986 campaign manager, says that unlike the consultants in the HUD scandals, the Senator used the more than $900,000 in Keating money he solicited to further his "political" interests rather than his financial interests. Meanwhile, Capitol Hill thunders on about the "influence peddling" of HUD consultants.

The obvious truth is that Congress's dramatically broadened definition of "constituent service" is largely a cover for what the legislative branch has become—an unseemly trade in which Jim Wright-style arm-twisting is the quid pro quo for the PAC contributions that in turn keep 99% of the House and 90% of the Senate re-elected. In sum, the Senators saw nothing wrong here because they simply don't feel accountable. There is no effective check on congressional behavior.

Indeed, the more we get to the bottom of Washington's other seamy story—the whodunit at HUD—the more we see Congress's fingerprints next to those of the infamous "consultants." A letter from New York's GOP Senator Al D'Amato has surfaced supporting a dubious HUD grant in Buffalo. Within months of the grant approval, the sponsors organized a fund-raiser for him that raised $40,000.

Undoubtedly, Members of Congress ought to be able to act as ombudsmen for their constituents in difficult cases. But these recent events are clearly very much beyond that simple role. Despite all the publicity that accumulates about the way Congress works—the franking privilege, the PACs, the gerrymanders, "constituent service," the S&L fiasco—the Members just keep rolling along. Entrenched, immune, above their own laws.

Surely it is time to start an effort to cut congressional power back to size. The American system has the means to do so. There was even a famous phrase once to describe it: Throw the rascals out!

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(Mount Clipping in Space Below)

Arizona senators dancing a minuet past Keating tar pit

Seems like Arizona's senators are more interested in playing word games with House Banking Committee Chairman Henry Gonzalez than in getting to the bottom of the Charlie Keating/Lincoln Savings fiasco.

Gonzalez says he won't subpoena the five senators who interceded in Keating's behalf with federal regulators — including Arizona Sens. Dennis DeConcini and John McCain — because the action may not hold up in court. But Gonzalez says the senators are welcome to testify before his committee if they wish.

DeConcini and McCain say they'd be more than happy to testify before the investigating committee if — get this — they're asked.

But, as the senators know full well, Gonzalez says he won't ask. Such verbal minuets allow DeConcini and McCain to appear cooperative without really being so at all.

Of course, the senators *could* ask to testify themselves. But they haven't.

Sort of makes you wonder why.

No news is . . .

Speaking of Keating, he's apparently been lining his bird cages with something other than *The Arizona Republic* or *The Phoenix Gazette* lately.

Chris Economaki, editor and publisher of *National Speed Sport News*, says there wasn't a local newspaper to be found at the Phoenician Resort last week because owner Keating has banned the Valley's major papers from his hotel.

Keating, who's been embarrassed by a number ~~of Republic~~ revelations about his alleged "milk 'em and bilk 'em" shenanigans with Lincoln Savings, was quoted by a woman working at the hotel desk as having banned the papers from his property.

It is the third time in about a year that Keating has tried to censor the news.

Economaki was in town for the races at Phoenix International Raceway and told *The Republic's* Bob McManaman that top-notch drivers staying at the hotel were upset that local newspapers were unavailable.

In fact, several other writers said they tried picking up papers at nearby convenience stores but didn't have much luck.

Keating may think he can control news in his own little world. But not anywhere else. At least not anymore.

'We have met the enemy . . .'

Democratic National Committee Chairman Ronald Brown delivered an unexpectedly provocative analysis of party politics in his keynote Monday at the state party's annual fund-raising shindig.

Too bad the unenlightened dronings of state Chairman Sam Goddard at the conclusion of the dinner obscured Brown's message.

To his credit, the take-no-guff Brown offered more than predict-

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KEVEN WILLEY
Political Columnist

able partisan jabs at President Bush. In a theory increasingly giving even some Republicans pause, Brown suggested that the GOP's traditional view of government as "the enemy" makes the party especially susceptible to corruption.

"How can you be a good secretary of HUD if you don't understand what the role of HUD is, if you're put there to dismantle the organization?" Brown asked, referring to the saga of corruption at the Department of Housing and Urban Development during the Reagan administration.

"You can't *possibly* be effective if you don't believe in the institution in the first place."

That's not to say that Republicans have a monopoly on scandal; former House Speaker Jim Wright is only the most recent example of Democratic culpability.

But as Brown pointed out, we have suffered a staggering "diminution of public spirit" in the past decade. Could it be at least partially attributable to the fact that many Republicans view it as somehow less immoral to corrupt government than to corrupt private enterprise?

It's worth thinking about.

Gilding the Rose

Voters beware: Gov. Rose Mofford's handlers are plotting an accelerated public-relations push with an eye to the 1990 elections.

Mofford political adviser Rip Wilson and press secretary Vada Manager met privately last week with state agency flacks to discuss how to boost the governor's image.

The message? Increase the public's perception of Mofford as actively involved in all aspects of the executive branch.

This might suggest to skeptics that Mofford, in fact, is not actively involved in all aspects of the executive branch.

Women lack power

~~Women~~ in Arizona ~~make up~~ nearly half of the work force but less than one-sixth of state government leaders.

That's according to a study by Arizona State University researchers just published as part of a book called *Gender, Bureaucracy and Democracy.*

And if that's not enough: Women in the highest levels of state government are younger, better educated and advancing faster than their male counterparts, but they're still making less money and supervising fewer employees.

But the news isn't all bad: Nearly a third of the 90-member Arizona Legislature is composed of women, almost twice the national average of 16 percent.

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Thrift Regulator's Resignation Sought By Consumer Groups

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Several public-interest groups called for the resignation of Danny Wall, the nation's top thrift regulator, citing his underestimation of the size of the savings-and-loan debacle and his delay in closing insolvent Lincoln Savings & Loan Association.

The groups, which included Public Citizen, the Ralph Nader-affiliated government watchdog lobby, urged President Bush in a letter to dismiss Mr. Wall from his post as chairman of the Office of Thrift Supervision. "Mr. Wall may have cost citizens of this country more than any other political appointee in history," the letter said, saying some analysts estimate that his actions may have increased the government's cost of resolving the thrift crisis by $20 billion.

Previously, Senate Majority Leader George Mitchell (D., Maine) said that Mr. Wall should step aside, and President Bush has said he has an open mind about whether to seek Mr. Wall's resignation.

A spokesman for Mr. Wall said that he has been unfairly treated by Congress, and that Mr. Wall hasn't any plans to resign. Mr. Wall has been the top thrift regulator for two years.

The groups didn't call for the resignation of five U.S. senators who received large contributions from Charles Keating Jr., the chairman of Lincoln's parent company, American Continental Corp. Mr. Wall's predecessor has said the senators pressed for a delay of a federal seizure of Lincoln, which is expected to be the costliest thrift failure ever at $2.5 billion.

In a news conference, representatives of the groups acknowledged they were in an awkward position regarding the senators, because two of them, Alan Cranston (D., Calif.) and John Glenn (D., Ohio), have worked avidly for pro-consumer legislation.

But James Davidson, chairman of the National Taxpayers Union Foundation, said that Sen. Cranston's role in the Lincoln failure was cited by 85% of its 200,000 members as "the biggest outrage of the decade."

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LETTERS

DeConcini a man of integrity

Editor:

I write as an Arizonan who has followed Sen. Dennis DeConcini's career since the first campaign, and as someone who has supported him over the years

Sen. DeConcini has shown himself to be a man of principle and integrity who has always put what was right ahead of what was politic.

His correct but unpopular stands on the Panama Canal, certain judicial appointments and the Navajo-Hopi land dispute have earned him little popular support, but have demonstrated his commitment to principle.

His actions last year when revelations of theft from his campaign surfaced showed that his dedication to doing what is right even extended to a situation where doing what was right cost him financially.

Now we have the Lincoln Savings and Loan scandal. It is clear that Sen. DeConcini's actions with respect to Lincoln were a mistake. It is also clear that had Sen. DeConcini realized the extent of the financial mismanagement at Lincoln, he would never have interceded, no matter how much money his campaign had received from Charles Keating.

It is now time for Sen. DeConcini to acknowledge that he made some mistakes in dealing with the Lincoln matter. Good men and women, even great men and women, make mistakes. All that we have a reasonable right to ask is that these good and great men and women acknowledge their mistakes and work to correct them.

LAWRENCE A. RUZOW
Window Rock

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Senators' 'services' costly for all of us

As the role of the Keating Five in the Lincoln Savings and Loan disaster has gathered more attention, the question of what amounts to proper constituent service has become more prominent.

The senators have maintained that they gave Charles Keating no more help than they have given hundreds of other constituents. Sens. Dennis DeConcini and John McCain have responded indignantly to accusations that Keating's large campaign contributions prompted their intervention with federal regulators on his behalf.

DeConcini has emphasized that one of his duties is to respond to constituents who have a problem with the government. McCain compared his decision to meet with regulators to "helping the little lady who didn't get her Social Security check."

Those explanations, however, have not impressed Arizonans. In a recent poll of Maricopa County adults, more than 40 percent said they were "openly dissatisfied" with the senators' answers to questions about their connections to Keating.

What we find no less aggravating than the senators' eagerness to help Keating is their willingness to put all their other constituents at financial risk by doing so.

When the senators met with federal regulators in April 1987, they had heard Lincoln described as a "ticking time bomb" that was taking too many risks and should be taken over by the government. The implications of those warnings were obvious: If Lincoln's high-risk operations were allowed to continue, losses that ultimately would be paid by taxpayers could multiply.

That's precisely what happened. Because the government failed to take control of Lincoln until this year, its losses are estimated to have increased by more than a billion dollars. That money will come out of the pockets of every taxpayer in the country.

So we think the issue of constituent service goes well beyond the question of whether the senators should have answered Keating's plea for help. Responding to his call was one thing; making every constituent bear the huge risks was quite another.

Their decision to go to bat for Lincoln Savings turned out to be an enormous financial mistake. Aside from whether Keating deserved the lavish constituent service he was afforded, the senators' other constituents didn't deserve to pay for their poor judgment.

(Excerpted from the Scottsdale Progress. *Distributed by The Associated Press.)*

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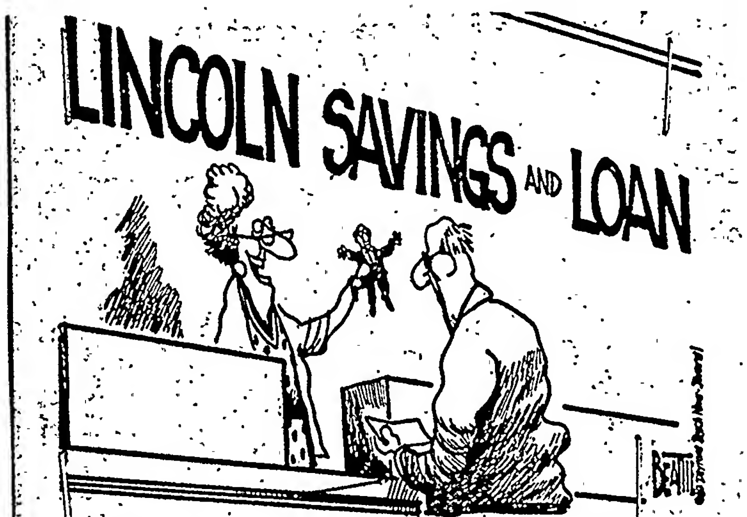

"With every new account of $500 or more, you get this U.S. senator doll to have in your pocket..."

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300 bondholders in Keating firm demand restitution by U.S.

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By Lisa Morrell
The Arizona Republic

SHERMAN OAKS, Calif. — More than 300 holders of now-worthless American Continental Corp. bonds signed petitions here Saturday demanding that the government cover the losses they suffered because state and federal officials failed to stop the "deceptive" bond sales.

The bondholders asked to be recognized as "victims . . . not idiots" for their investments.

The petitions, circulated during a heated first meeting of a group mobilizing bondholders in southern California, said the signers "hold the government accountable and responsible for not protecting our interests" against an alleged scheme to defraud investors by American Continental of Phoenix.

More than 23,000 people invested more than $230 million in American Continental, which filed for Chapter 11 reorganization and protection from creditors under the U.S. Bankruptcy Code on April 13. The bonds were purchased at Lincoln Savings and Loan, which was purchased by American Continental in 1984.

One bondholder, Ralph Wilson, asked why Charles H Keating Jr. has not been ousted from control of American Continental.

Investors' attorneys and the federal government may "at some point" in the bankruptcy proceedings push for a trustee to run American Continental's operations, said Ronald Rus, an attorney representing investors who filed one of 12 lawsuits against American Continental officers and directors and their hired accountants and law firms.

The government has charged Keating and 10 other American Continental executives with fraud and racketeering in a lawsuit filed Sept. 15 in U.S. District Court in Phoenix.

Many of those at the ACC Bondholders Action Committee meeting were elderly and seemed confused about the legal morass in which they found themselves. Many, who were longtime Lincoln depositors said they thought their investments were safe because they were recommended by Lincoln employees they trusted.

They expressed anger at Keating and five senators who went to bat for him in a costly battle over Lincoln against federal regulators.

Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich., met with federal officials to inquire about their investigation into Lincoln.

Andrew Yun, whose father invested $200,000 in the bonds, condemned the five senators as "dishonest and cruel."

"Hang 'em," one audience member said.

The petitions claimed the government approved the bond sales even after thrift regulators knew that Lincoln Savings was in a shaky condition. Many of the "unsuspecting Lincoln customers" thought the bonds were federally insured, the petitions said.

The bondholders committee plans to send the petitions to Reps. Richard Lehman, R-Calif.; Nancy Pelosi, D-Calif.; and Henry Gonzalez, D-Texas. Gonzalez is leading the probe into the collapse of Lincoln.

Rus told bondholders he expects they will get back some of their money through the investors' lawsuits, which are seeking class-action status as one lawsuit. The suit is expected to go to trial in August, he said.

Rus said bondholders should not feel stupid or ashamed over losing their money.

"You have been caught in one of the most sophisticated financial shams ever," he said.

"We must be recognized as victims and not idiots for investing in the bonds," said Yun, 23.

One of the committee's goals is to get bondholders involved in decision-making processes that affect them, he said. Another goal is to help them deal emotionally with their losses.

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Wall quits as top S&L regulator

Claims he's 'scapegoat' in Lincoln case

By Sam Stanton
Republic Washington Bureau

WASHINGTON — M. Danny Wall resigned Monday as the nation's top thrift regulator, saying calls for his ouster were attempts to make him a "scapegoat" for the collapse of the Lincoln Savings and Loan Association and other thrifts.

Wall announced his resignation as director of the Office of Thrift Supervision during a news conference in which he took a bitter swipe at Rep. Henry Gonzalez, D-Texas, House Banking Committee chairman, who has been calling for Wall's ouster since April. Wall's support in the Bush administration had been dwindling as Gonzalez's committee probed Wall's handling of Irvine, Calif.-based Lincoln Savings, formerly owned by Charles H. Keating Jr.

"Having failed to secure my departure legislatively, Mr. Gonzalez resorted to corruption of the truth and abandonment of our historical devotion to fair play and due process in his effort to remove me from office," Wall said in a four-page letter to President Bush that was released to reporters.

Wall said Gonzalez had made "simplistic efforts to find a scapegoat to shoulder the blame" for the crisis in the S&L industry.

Gonzalez, who has made brutal attacks on Wall's handling of the nation's S&Ls, issued a statement saying Wall "has done the best thing for himself and the federal regulatory system.

"The savings and loan disaster has been extremely costly in terms of

—See WALL, page A10.

Scott Applewhite/The Associated Press

M. Danny Wall announces his resignation in Washington. "I don't think it's a matter of running from a fight," he said Monday. "I think it's a matter of bringing a fight to a close."

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Wall quits S&L post, takes shot at senator

— WALL, from page A1

dollars and public confidence," Gonzalez said. "It was essential that there be new leadership."

Gonzalez's hearings into Lincoln have become so widely watched that they have been parodied on NBC's *Saturday Night Live*.

Wall's resignation stems from one of the nation's worst financial scandals, one that will cost taxpayers as much as $2.5 billion and threatens the political careers of five U.S. senators, including Democrat Dennis DeConcini and Republican John McCain, both of Arizona.

His decision to leave, after calls for his head from leaders of Congress and some of the nation's most influential newspapers, was met with almost a sense of relief Monday from many officials.

'Public-spirited' move

Treasury Secretary Nicholas Brady said he wished Wall well, adding that although resignation must have been a difficult move for him, it was "one that was public-spirited."

Wall's predecessor at the bank board, Edwin Gray, said he felt "sadness" for Wall, adding that the job he is leaving is considered to be among the toughest in Washington.

However, he said, "Danny Wall's effectiveness was gone."

House Banking Committee member Jim Leach, R-Iowa, said the move was "virtually inevitable."

Wall said that he will remain in his post until the president appoints a successor and that he has no job plans. He also insisted that his leaving should not be construed as an admission of failure.

However, pressure for Wall to leave has been mounting as Gonzalez and others have pinned the blame for the S&L crisis squarely on his shoulders. Wall is a former Senate Banking Committee staffer and the last chairman of the Federal Home Loan Bank Board, which was restructured to become the Office of Thrift Supervision.

Wall, who was applauded loudly by workers at the thrift office when he strode into a packed auditorium for his news conference, had said as late as last week that he would not quit. But he conceded Monday that he had begun making plans to leave last month, after he had spent 10 hours testifying before the Banking Committee in its probe of Lincoln.

He insisted that he had not been pressured into resigning by the administration, but conceded that no one had asked him to stay, either, when he made his intentions known.

'Bringing fight to a close'

"I don't think it's a matter of running from a fight," Wall said.

"I think it's a matter of bringing a fight to a close. . . . My decision to step down is to remove the distraction."

One administration source, speaking on condition of anonymity, said that before Wall testified before Gonzalez's committee on Nov. 21, he told his superiors at the Treasury Department that he planned to resign soon.

That source added that Wall had been asked to stay on until a successor could be named, a move that is expected to take several weeks.

Wall, who came to the bank board 2½ years ago, said he has survived repeated attempts on Capitol Hill to oust him from his job as overseer of the nation's thrifts.

"I am the 19th chairman of the Federal Home Loan Bank Board, and I have been in office longer than half of them," said Wall, whose term would have expired in July 1991.

Lincoln his undoing

However, the failure of Lincoln Savings proved to be Wall's undoing, despite his insistence that his handling of the thrift was proper.

Lincoln, which was owned by Keating's American Continental Corp. of Phoenix until Wall's agency seized it April 14, could cost taxpayers more than $2 billion. Keating's organization had been at war with the bank board for two years before the government moved in last spring.

Gonzalez and others portrayed Wall and his underlings as bowing to Keating's every wish and allowing the thrift to remain open despite warnings in 1987 that it should be closed.

Those warnings came from government regulators based in San Francisco, who testified earlier this fall that Wall ignored their requests for action on Lincoln.

Wall insisted in his testimony last month and in his announcement Monday that he felt no political pressure to keep Lincoln open, despite claims from some that the senators, now known as the Keating Five, may have influenced him.

Each of the five — Alan Cranston, D-Calif.; John Glenn, ~~D-Ohio~~; Donald Riegle, D-Mich.; and DeConcini and McCain — received large contributions from Keating and had intervened with the San Francisco officials examining Lincoln.

But each senator has denied any wrongdoing, and Wall on Monday repeated his assertion that Lincoln was left open until this year because the San Francisco officials had not given him enough evidence to shut it down.

Wall also continued to praise their ability despite what he termed a "bureaucratic disagreement" between them and Washington.

Spokesmen for the San Francisco regulators and for Keating would not comment Monday on Wall's resignation.

But Gray said Wall's failure to follow the advice on closing Lincoln "was his greatest mistake."

M. DANNY WALL

BORN: Aug. 30, 1939

FAMILY: Married, two children

CAREER: 1963-64, Assistant director, Fargo (N.D.) Urban Renewal Agency. 1964-71, executive director, Fargo Urban Renewal Agency. 1971-75, executive director Salt Lake City Redevelopment Agency. 1975-79, director of legislation for Sen. Jake Garn, R-Utah. 1979-80, minority staff director, Senate Banking Committee. 1981-87, majority staff director, Senate Banking Committee. 1987 to Aug. 8, 1989, chairman, Federal Home Loan Bank Board. Became director of Office of Thrift Supervision on Aug. 9, when it replaced the bank board.

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Varied tacks of 'Keating 5'

Styles differ in reactions to political crisis

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — The approach of Sen. Dennis DeConcini, a lawyer, is judicial: Answer precisely the questions but volunteer little else.

The response of Sen. John McCain, a decorated Navy pilot, is to attack as if it were a combat exercise: With battle position under constant review, vigorously and loudly launch offensives on all fronts.

The strategies of the two Arizona senators to the Charles H Keating Jr. and Lincoln Savings and Loan Association scandal show stylistic differences between the two and their contrasting political aspirations.

But the approaches also reflect the seriousness of the scandal enveloping the senators and three other colleagues, Alan Cranston of California, Donald Riegle Jr. of Michigan and John Glenn of Ohio. The senators have come to be known as the Keating Five.

Mervin Field, a California pollster, said the Keating affair is unlike recent national scandals in that it does not just involve an impersonal federal bureaucracy and the "usual transgressions" of faceless public officials.

Villains and victims

Field said this scandal has identifiable "villains": an influence peddler (Keating) and those he tried to buy (the senators). There are real-life victims, too: U.S. taxpayers and about 23,000 mostly elderly investors whose American Continental Corp. bonds became worthless when the firm filed for Chapter 11 protection from creditors under the U.S. Bankruptcy Code.

"Once an elected official has to start explaining his acts in a defensive way, he's in trouble," Field said.

Norman Ornstein, a political analyst with the American Enterprise Institute, said all five senators are tainted. But he said it is too early to assess the long-term political damage.

Ornstein also said partisan politics could make matters worse for McCain, the only Republican in the group. He said Democrats are likely to work to counter McCain's efforts to distance himself.

"The political dynamics are such that Democrats are not going to allow this to move to the Keating Four," Ornstein said.

McCain, 52, a decorated Navy pilot who was a prisoner of war in North Vietnam, has been the only one of the five to take a high-visibility approach. Cranston, Riegle and Glenn only recently have even begun speaking publicly.

Opinion polls

McCain, in his first Senate term after two terms in the House, assembled former and current staffers in a meeting to review his efforts in Keating's behalf, and McCain said he plans to conduct public-opinion polls to assess the damage.

At the outset, he attempted to extricate himself from the affair by holding a full-blown news conference in Phoenix.

But McCain dumped this strategy within days after it became apparent that an investigation launched by the House Banking Committee would put the national spotlight on the issue and that the attention could not be contained.

McCain then embarked on an

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aggressive national-media campaign in an effort to portray himself as open and ethical. He has appeared on major news shows on every national television network.

He stresses how he told regulators during the second of two controversial April 1987 meetings that he wanted no special favors done for Keating, with whom he had been friends for about seven years.

GOP is watching

The national Republican Party, mindful that if McCain could distance himself from the affair it would become another Democratic ethics problem, has been watching the case and supports McCain's media strategy.

"Arizona is an important state for us, and so we always watch those who have served the party well," said Leslie Goodman, Republican National Committee spokeswoman. "We always watch the stars within the party."

McCain has been widely mentioned as a possible candidate on some future Republican presidential ticket.

His temper has flared during the ordeal. He has been verbally abusive and sarcastic in response to reporters' questions, except in public.

DeConcini, 51, a former prosecutor, also called together his past and current staff to comb through appointment books and telephone logs to bolster his claim that he often has gone to bat for constituents, even those who contributed generously to past campaigns.

He has been visible to his Arizona constituents, making numerous appearances each weekend, but he has avoided the national news media. He has answered precisely the questions posed about his role, but has offered to say little else.

DeConcini-recall bid

Even before the scandal, DeConcini's popularity was suffering as a result of questionable land deals and an uproar over his sponsorship of efforts to ban some assault weapons. The issue sparked a recall campaign, and it is not uncommon to see bumper stickers in Arizona that say, "Dump DeConcini."

But DeConcini, like Riegle, does not face re-election until 1994, and it is not even certain that he will opt for another race. He said last week that he broke his earlier pledge not to seek a third term because his agenda remained unfinished. But he said being "under siege" makes it difficult to fulfill that goal.

Until last week, Cranston had left his press secretary to fend off unrelenting press inquiries that peaked when a group of elderly bondholders singled out Cranston for blame for the loss of their investments. They said his role in the debacle betrayed their trust.

Cranston, along with DeConcini, has been criticized for continuing to help Keating, who heads American Continental, try to sell his thrift before the government seized it in April. The efforts were made despite earlier warnings that the Irvine, Calif.-based Lincoln was the target of a criminal probe by the Justice Department.

Field labeled the affair "excruciatingly damning" for the 75-year-old Cranston.

"It looks very, very black for him," he said.

Cranston, who has been a senator for 20 years, narrowly won re-election in 1986 but does not face re-election until 1992.

"Without Keating and the Lincoln Savings affair, it was going to be a rugged battle for Cranston because of his age and incumbency," Field said.

"Even though he has granted some interviews ... it is the kind of thing that is going to be very hard to extricate from since he faces a series of lawsuits, and investigations in California and Washington."

Riegle, 51, powerful Senate Banking Committee chairman, has employed a hybrid strategy of saying nothing to the national media except to shift the blame to DeConcini and McCain.

Riegle, first elected to Congress in 1966, has been so tight-lipped that he left out vital details in his official response to the Senate Ethics Committee, which is looking into the senators' conduct in relation to Keating.

Despite his efforts, Riegle's more-extensive role has emerged.

E. Spencer Abraham, chairman of the Michigan Republican State Committee, said that Riegle has been "studiously low-profiled" and predicted that his lack of candor will hurt him.

But Julie Weeks, vice president of political research at Detroit-based Market Opinion Research, a national GOP polling firm, said Riegle "hasn't been dinged with it very hard."

Time is on their side

Weeks said the political impact of the affair is lessened because none of the Keating Five faces re-election in 1990.

"If anyone were up in '90, they would be sweating bullets at this stage," Weeks said.

Glenn, 68, a 15-year senator who, in 1962 was the first American astronaut to orbit the Earth, has adopted the McCain "American Hero" approach: "My honor is vital, and I would never betray the trust voters have placed in me."

Jim Ruvolo, chairman of the Ohio Democratic Party, said Glenn waited to comment until he had gathered the facts. It was not until late November that he met with Ohio reporters to explain his role.

Ruvolo said the main goal of any politician caught up in a scandal such as the Keating affair is to get the issue behind him as quickly as possible in an effort to stem media coverage.

"The thing you have to avoid at all costs is 'Chinese water torture: drip, drip and drip," Ruvolo said.

'THE KEATING FIVE'

Sen. Dennis DeConcini, D-Ariz. /
Next election: 1994
Conducted both April 1987 meetings with senators and regulators in his office. Asked regulators to grant "forbearance" to Lincoln. Accepted, and later returned, $48,000 in campaign money. Continued trying to help Keating until April 1989. Two campaign aides received millions in loans from Lincoln.

Sen. John McCain, R-Ariz. /
Next election: 1992
Attended both April 1987 meetings. Received $112,000 in campaign money. Onetime friend of Keating. Took trips to Bahamas with Keating. Wife and father-in-law invested in Keating shopping center in Phoenix. That $359,000 investment could be threatened by government's $1.1 billion lawsuit against Keating.

Sen. Alan Cranston, D-Calif. /
Next election: 1992
Attended first April 1987 meeting but only made brief appearance at second. Accepted $39,000 in direct contributions, plus $850,000 for affiliated voter-registration groups. Continued trying to help Keating until April.

Sen. Donald Riegle, D-Mich. /
Next election: 1994
Met with officials from Keating's American Continental Corp. in February 1987, then met with nation's top thrift regulator, Edwin Gray, to suggest meeting with other senators. Attended only second April 1987 meeting. Toured American Continental properties in Arizona. Received $66,000 but returned it. Blames DeConcini and McCain for meetings.

Sen. John Glenn, D-Ohio /
Next election: 1992
Attended both April 1987 meetings. Told regulators to "charge Lincoln "or get off their backs." Accepted $34,000 in direct contributions, and $200,000 for political-action committees.

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(Mount Clipping in Space Below)

Valley tour lets McCain speak out

By CONNIE STEELE
Daily News-Sun staff

SUN CITY — U.S. Sen. John McCain, R-Ariz., is facing an ethics probe and the political fight of his life.

Questions about his past friendship with Charles H. Keating Jr., and whether Keating's campaign contributions prompted McCain to intercede on his behalf with federal thrift regulators have marred the senator's previously spotless career.

Saturday in a marathon tour of the Valley, McCain made five speeches and talked to members of the media.

"I'm pleased when I can get on TV and go direct to the people," he said, citing numerous appearances on network programs such as Night Line and Meet the Press.

Saturday night he spoke to about 160 members of the Republican Forum West, political issues group, at the Crestview Vacation Headquarters in Sun City West.

"Because I have so many constituents in this area, I thought it would be good to visit here," he said before the dinner meeting.

He had been invited to be the group's guest speaker last summer, but only recently accepted the invitation.

Among fellow Republicans, McCain's association with Keating was not brought up publicly except to tell the group, "One needs friends when one is beleaguered. I am deeply grateful for your friendship and support. We will emerge not only unscathed but better equipped for the job."

However, State Rep. Robert Williams, R-Sun City West, said privately, "It's very easy to get caught up in a spider's web with an unscrupulous man who you think is scrupulous.

"People are forgiving of a good person and I think he's a good person," Williams said of McCain.

"He tried to help a constituent and got burned. He's going to work his way out of it."

Another member of the group, Robert Holdway of Sun City West, said, "He faces a difficult task, but it's one he can overcome. If a senator is to respond to his constituency and conduct an investigation to see if his claims are valid, he shouldn't be pillaried."

McCain's aide, Wes Gullett, said the evening was an opportunity to discuss issues that wouldn't be discussed otherwise.

"The only thing the press is picking up on is the Keating thing and there's a lot more going on."

Catastrophic health insurance, economic recovery of Arizona and environmental issues were among those McCain touched on during a visit to the Daily News-Sun.

But despite making himself available to talk about any subject of interest, McCain made it clear he was in the area to tackle head on any questions voters might have regarding his relationship with Keating.

At issue is whether campaign contributions and gifts of personal travel prompted McCain to intercede with federal regulators on behalf of Keating and the failure of Lincoln Savings & Loan, a subsidiary of Phoenix-based American Continental Corp., of which Keating is chairman.

At the first of the two meet-

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Daily News-Sun photo by Connie Steele

WITH THE VOTERS — Sen. John McCain, R-Ariz., visited with voters Saturday as he talked with members of the Republican Forum West, at a dinner meeting in Sun City West.

ings, April 2, 1987, at Keating's request, McCain joined Sens. Dennis DeConcini, D-Ariz., Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's savings and loan.

On April 9 the same four senators and Donald Riegle, D-Mich., met again in DeConcini's office with officials from the bank board's San Francisco office.

McCain contends that he did nothing for Keating that he wouldn't do for any constituent.

"The obligation of any elected official when a constituent comes to him and says he's not being treated fairly is to get the facts," said McCain Saturday. "I have done this hundred of times in seven years as an elected official."

Determining the facts of Keating's claim of unfair treatment by federal thrift regulators was the sole purpose of the meeting, McCain said.

In addition to Keating being a constituent with a problem, McCain said he attended the meetings because Keating had provided "supporting materials" from Arthur Young & Co., a national independent accounting firm, and a letter from Alan Greenspan, now chairman of the Federal Reserve Board, endorsing Lincoln Savings' investment policies and its management.

See Senator, A4

Senator spends time in Valley

—From A1

Even so, "I explicitly told Mr. Gray that I was there only for the purpose of hearing the reasons for the Bank Board's actions, and that I did not want to do anything, or ask anything, which might be construed as improper," McCain said in a response to the Senate Ethics Committee dated Nov. 21 of this year.

The response was developed in answer to allegations of the citizen advocacy group, Common Cause, which earlier had filed a letter with the Senate Select Committee on Ethics.

His response contains a chronological review of events and conversations leading up to the 1987 meetings among the five senators, Keating and Gray, the meeting's outcome and his subsequent actions.

Also outlined is how McCain failed to immediately reimburse Keating or American Continental for personal travel to his friend's home in the Bahamas. Included are copies of canceled checks that later reimbursed American Continental Corp. for the transportation.

A 1989 check for $3,754 paid American Continental for four flights during the years 1984, 1985 and 1986 on Keating's corporate aircraft.

"Along with my wife, Cindy, and our daughter Meghan, I vacationed with the Keatings there in 1984, 1985 and 1986. On each of these three family vacations, Mr. Keating made available American Continental Corp. aircraft for at least some portion of the air travel ...

"I believed I had paid for this travel in a timely fashion," McCain said in his response.

Saturday, McCain called the payment oversight "a serious error; one I cannot excuse."

Air transportation provided to McCain was suggested in the Common Cause letter to the Senate Ethics Committee as one of the ways in which attendance of McCain and the other senators at the two meetings with bank board officials had been "purchased" — allegations McCain denies.

McCain also contends that once he became aware of the serious legal and financial problems facing Keating, he did not again attempt any contact with thrift regulators.

Saturday, he explained the media spotlight by calling it a "sexy" issue that contains all of the elements to draw interest.

"It's five senators; it's Charlie Keating; it's savings and loans."

McCain said he is fighting back the only way he knows how, by taking his case to the people.

"I can't sit tight," he said. "It's been very traumatic for me," he said. "My strategy has been to make myself as available as I can. The other four senators haven't been as visible."

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How Keating corps aided politicians

Spent $2 million on 51 candidates in '83-88

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — It was May 1986, and Rep. John McCain, R-Ariz., was running hard for the U.S. Senate when a call came in to his campaign headquarters.

An official of American Continental Corp. was on the line, explaining that there were some checks waiting to be picked up.

The campaign treasurer drove over to American Continental's headquarters in Phoenix and came away with $51,000 in personal checks from employees and associates of American Continental Chairman Charles H Keating Jr.

Three months later, on Aug. 28, 1986, in the harried Mesa office where Jay Rhodes was running his first campaign for Congress, nine

— *See* **KEATING**, *page A12*

Charles H Keating Jr. / Pattern of contributions questioned.

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Keating, associates pumped millions into campaigns

— KEATING, *from page A1*

personal checks arrived in the mail. Each was for $1,000. Each was from an American Continental officer or his or her spouse.

That is the way it went for years as Keating's family and American Continental officials and their spouses pumped nearly $2 million into the campaign war chests of at least 51 House, Senate and presidential candidates from 1983 through last year.

The aspirants were, or stood a good chance of being, in a position to help Keating and his far-flung business empire, particularly Lincoln Savings and Loan Association.

Although much attention has focused on the so-called Keating Five senators, records show that the Phoenix businessman lavished money on dozens of other politicians and that his associates and their families did the same, often making contributions on the same day as Keating.

An *Arizona Republic* survey of tens of thousands of pages of Federal Election Commission documents shows that since 1984 — the year Keating purchased Lincoln Savings — Keating or his associates and their families have doled out money to at least 24 senators, 13 House members, eight presidential candidates and unsuccessful candidates for the House and Senate.

They also gave to both major parties, numerous political-action committees and dozens of local and state candidates across the nation.

Keating spokesman Brad Boland denies any impropriety in the contributions, saying no employees were asked to contribute to politicians known to be helpful to Keating.

"I know for a fact that never happened," Boland said. "It was absolutely, positively voluntary.

"The politicians are always the ones that are asking for contributions. It's not like we went out and asked if we could contribute to their campaigns."

Boland himself, along with his wife, Elaine, gave $14,500 to candidates from Michigan, Colorado, Georgia, California, Nevada and Arizona.

Donations probed

~~But just~~ how and why those contributions were made is now under federal scrutiny, partly because of the collapse of Keating's Lincoln Savings and partly because of suspicions that Keating tried to buy influence everywhere from Capitol Hill to the White House.

Even Keating has said he expected his contributions to politicians to influence lawmakers.

"I want to say in the most forceful way I can: I certainly hope so," Keating said in April.

The federal government has alleged in a $1.1 billion civil fraud and racketeering suit that Keating looted federally insured thrift deposits and funneled them into his favorite political candidates and causes.

Having accepted money from Keating sources now is considered a stain on a politician's reputation, and the list reads like a Who's Who of American politics.

Candidates ranging from George Bush to Gary Hart benefited from the largess of the Keating empire. And the unusual patterns of giving that emerge from federal election documents are under scrutiny.

Opposites attracted cash

Reviews of such documents show donors' often giving to candidates who opposed each other, to ideological opposites and to candidates in races far from the donor's home state, practices that the FEC termed puzzling.

"Most individual contributions come from people in their own state," said Scott Moxley, an FEC spokesman.

He said individual contributors normally give to only one candidate and do not usually give to opponents in the same race, as the Keating associates did.

In May 1986, for example, Lincoln Savings director Robert J. Kielty gave $1,000 to the Ed Zschau for U.S. Senate Committee, records show. Zschau, a California Republican, was trying to defeat incumbent Democrat Alan Cranston. In the same election, Kielty and his wife also gave a total of $4,000 to Cranston, the Senate majority whip.

Such apparent contradictions abound among Keating associates.

Scores of Phoenix-based employees gave $2,000 contributions to Sen. Donald Riegle, D-Mich., who as Banking Committee chairman was important to Keating but who had little else to do with Arizona.

The $66,000 from Keating and his associates, which Riegle since has returned, poured into his campaign weeks after Riegle took a helicopter tour of Keating's American Continental headquarters and gave a speech to company employees. Riegle claimed Keating as a constituent because the Phoenix financier was renovating the Pontchartrain Hotel in Detroit.

In position to help

Most, if not all, of the politicians receiving the money were in posts critical to the success of Keating's firms, including the now-defunct Lincoln Savings, based in Irvine, Calif..

Hefty contributions were made to Banking Committee members in both houses of Congress, as well as to politicians in states in which Keating operated his businesses.

Recipients included then-House Banking Committee Chairman Fernand St Germain, D-R.I.; ranking committee Democrat Frank Annunzio, D-Ill.; and committee members Doug Bernard, D-Ga.; Dave Dreier, R-Calif.; Stephen Neal, D-N.C.; and Jim Kolbe, R-Ariz., when Kolbe was a member of the panel.

Keating and his friends also gave generously to key Senate Banking Committee members, including Riegle, the chairman; Jake Garn, the ranking minority leader; Cranston; Tim Wirth, D-Colo.; and Phil

Gramm, R-Texas.

Contributions also went to the top leaders of the Senate, including Majority Leader George Mitchell of Maine and Minority Leader Bob Dole, a Kansas Republican, according to an unofficial list of Keating contributors. The list, obtained by *The Republic*, is being used by the FEC in its probe.

Many politicians have told of attempts by Keating or his associates to gain favors from them after he had given them money, including requests that Keating allies be appointed to federal posts.

The politicians, including Arizona's

the FBI, the House Banking Committee and numerous other agencies.

'I have the right'

Numerous contributors declined to comment on whether they were told to make contributions as a condition of employment, which would be a violation of federal election laws.

"I did make political contributions, but I am not really willing to discuss this," said one donor, Michele C. Mencuccini.

"I have the right to make political contributions to whomever I choose."

Mencuccini, who worked for American Continental from 1984 to

senators — McCain, a Republican, and Dennis DeConcini, a Democrat — have said those efforts were unsuccessful.

But those two senators, and Riegle, Cranston and John Glenn, D-Ohio, now face a Senate Ethics Committee probe of their actions in Keating's behalf. At issue is whether the senators improperly coerced federal regulators into backing off in their probe of Lincoln two years before the thrift collapsed.

In addition, Keating's methods and the contributions have become the focus of probes by the FEC, the Securities and Exchange Commission,

1987, gave $1,000 each to McCain, Sen. Pete Wilson, R-Calif., Sen. Alan Cranston, D-Calif., and Rep. Doug Barnard, D-Ga., and $750 to Rep. Jon Kyl, R-Ariz.

Another Keating associate, former Lincoln Savings Senior Vice President Sheldon Weiner, was equally generous but would not discuss the matter.

Weiner would not say why he gave to rival Democratic presidential-nomination candidates Cranston and Walter Mondale or to then-Rep. McCain in 1984. Nor would he explain his 1986 contributions to several U.S. senators, including DeConcini, and Arizona's Rhodes.

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Keating alleges U.S. is looting Lincoln

Regulators blamed for $2 billion loss

By Jerry Kammer
The Arizona Republic

Under attack by federal regulators who accuse him of looting Lincoln Savings and Loan, Charles H Keating Jr. now contends that the government is doing the same thing.

Keating is blaming regulators for an estimated $2 billion in losses at Lincoln, claiming that the regulators drove the thrift into the ground with a calculated program of harassment and vendetta.

The allegations are contained in a 138-page report prepared for the federal Bankruptcy Court in Phoenix by attorneys for Keating's American Continental Corp., which is undergoing reorganization while being protected from creditors by the Bankruptcy Court.

The report claims that regulators' incompetence and pettiness destroyed Lincoln, not insider fraud as the government alleges in its $1.1 billion civil-racketeering suit against Keating and his business associates.

The report also attacks the media and the House Banking Committee, claiming that they distorted the significance of Keating donations to five U.S. senators who intervened with federal regulators on his behalf.

Keating is chairman of Phoenix-based American Continental, which operated Lincoln until the thrift was seized in April by regulators, who said it was unsafe and unsound. A projected $2 billion taxpayer bailout would make it the costliest failure in the savings and loan debacle.

Keating claims that the seizure of Lincoln was illegal and is suing to regain control of the thrift.

The American Continental report accuses regulators of targeting Keating for harassment because of his resistance to changes in federal

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Keating says U.S. is looting Lincoln

— KEATING, *from page A1*

regulations governing thrifts.

After seizing Lincoln, regulators followed "a plan to reduce the value of Lincoln's assets" to justify the seizure while increasing the cost of the federal bailout, the report charges.

"In late 1988, philosophical and political goals and/or vengeance overcame whatever business sense the regulators possessed," the report charges. "They barred any skilled management of Lincoln's assets."

The report claims that regulators, because of their "deficient business analysis," are planning to sell the thrift's properties at prices below their true value.

Karl Hoyle, spokesman for the U.S. Treasury Department's Office of Thrift Supervision, defended the seizure of Lincoln as "necessary to protect the federal insurance fund" that safeguards thrift deposits.

"The purpose of the seizure was to remove those who were dissipating Lincoln's assets," Hoyle said. "That is why we took it from Mr. Keating."

Hoyle said that regulators have been criticized harshly for not seizing Lincoln sooner.

The American Continental report contends the furor over the intervention of the five senators with federal thrift regulators is exaggerated.

The senators, John McCain and Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio, and Donald Riegle of Michigan, received large campaign contributions from Keating. Their relationship with Keating is being investigated by the Senate Ethics Committee. McCain is a Republican; the others are Democrats.

The report claims that the media and the House Banking Committee "seem now to be eager" to find that the contributions "were somehow sinister, calculated to compel senators to attempt to influence improperly the (regulators)."

But it adds, "there is, of course, nothing improper about a constituent raising issues of possible regulatory impropriety with elected representatives, and the inference that lawful contributions compel men of integrity to act otherwise is simply unjustified."

The report also contends that allegations in the government's racketeering lawsuit "merely rehash further the allegations of the various (regulators') examinations" of the Irvine-Calif.-based thrift that invested heavily in undeveloped real estate, junk bonds and stocks.

The report also claims that midsummer news stories about the impending lawsuit, which was filed in September, demonstrate that the suit "has served the purposes of the federal regulators less as a lawsuit than as a vehicle and excuse for publicly pillorying defendants, humiliating them and their families, and permitting the media to act as billboards for the federal regulators' campaign of harassment and innuendo."

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5 senators are facing ethics probe

Links to Keating will be reviewed

By Sean Griffin
The Phoenix Gazette

WASHINGTON — The Senate ethics committee has authorized a formal investigation to determine whether five senators linked to Charles H Keating Jr. violated Senate ethics rules.

The committee's special counsel has been granted authority to subpoena witnesses and documents related to Keating's involvement with Sens. John McCain, R-Ariz., and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

In a release issued today, committee chairman Howell Heflin, D-Ala. and ranking minority member Warren Rudman, R-N.H., emphasized that the committee's decision to proceed to what is known as a preliminary inquiry "is being undertaken for procedural reasons only."

The release stated that the committee "has taken no position as to the merits of the allegations or the weights of the evidence" compiled to date.

There are three formal stages and one informal stage in an ethics committee investigation. In the informal stage, the committee often selects a special counsel — in this case Washington attorney Robert Bennett — to help decide whether to proceed to the first formal stage, the preliminary inquiry.

Today's announcement ends the informal stage of the ethics committee

See ■ Senators, A-6

■ Senators

From A-1

probe and provides its counsel with some powerful investigatory tools to see whether the facts merit moving on to an initial review, the second formal stage.

The final stage is a committee investigation and can include courtroom-type presentations to the committee, typically behind closed doors.

"The bottom line is there is no increase in the level of suspicion implied by this step," said Paul Jacobson, a spokesman for Rudman. "It simply gives him the authority to go in and look around."

To date, the committee has solicited statements from each of the senators, asking them about the contributions they received from the American Continental Corp. executive and his associates, their attendance at two meetings with regulators overseeing Lincoln Savings and Loan Association, an American Continental subsidiary, and subsequent contact they had with regulators on behalf of Keating, American Continental or Lincoln.

All the senators have denied wrongdoing.

Scott Celley, a spokesman for McCain, said the preliminary inquiry phase, which under committee rules generally lasts no more than 60 days, was good news for McCain "because we are confident the committee will find that he did nothing wrong and did not abuse his office in any way."

DeConcini issued a brief statement, saying, "I welcome a thorough evaluation of the facts, and I feel confident that I will be exonerated."

Murray Flander, press secretary to Cranston, told The Associated Press the transition to a formal probe "will obviate any charges of whitewash afterward."

Glenn and Riegle could not be reached for comment.

The five senators received a total of $1.4 million from Keating and his associates and met with regulators in April 1987 after Keating complained of being harassed by thrift examiners.

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DeConcini will tell Keating tale on TV

By Keven Willey
The Arizona Republic

Sen. Dennis DeConcini plans to buy major blocks of television time beginning next month to combat what he sees as "public misperceptions" about his role in meetings with federal regulators regarding Charles H. Keating Jr. and Lincoln Savings and Loan Association.

Mike Crusa, DeConcini's state director, confirmed Tuesday that the Arizona senator plans to purchase the air time, probably in five-minute segments, to get his side of the story "directly to the folks."

Crusa declined to say how much money will be spent on the spots, saying those decisions had not been made yet.

DeConcini is the first of the so-called Keating Five to take such action.

He and four other senators have been faulted for meeting privately in 1987 with federal regulators in Keating's behalf after getting more than $1.2 million in campaign funds from Keating and his associates.

Other senators attending the meetings were Republican John McCain of Arizona and Democrats John Glenn of Ohio, Donald Riegle of Michigan and Alan Cranston of California.

In the meetings, the senators complained to the regulators about the length of time spent on an

Dennis DeConcini / His state director says people are unaware that the senator returned money contributed by Charles H Keating.

examination of Lincoln Savings, which was owned by Keating's American Continental Corp. They complained that the examination bordered on harassment and urged the regulators to charge Lincoln with an offense or close their books.

Lincoln was seized in April by federal regulators, who now say that protecting the failing institution's depositors will cost taxpayers more than $1.5 billion.

Crusa said that the decision to buy television time was based on the results of a series of focus groups his office conducted in Maricopa County earlier this month. He said he is surprised and disappointed at what he calls the "depth of misunderstanding" of the public.

Crusa said many people are unaware that the senator returned money contributed by Keating and his associates.

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Ed Buck may join DeConcini recall bid

McCain included on activist's list

By Don Harris and Jerry Kammer
The Arizona Republic

The man who led a drive to recall then-Gov. Evan Mecham may join forces with the leader of a petition drive to recall Sen. Dennis DeConcini.

Former anti-Mecham activist Ed Buck and Jon Seidl of Phoenix, who manufactures magazines for automatic weapons and is a critic of the Arizona Democrat's efforts to limit such sales, have discussed a possible alliance and said Tuesday that they will meet today in hopes of reaching an agreement.

"There is a definite possibility of that," Seidl said. "But until our next meeting tomorrow, I can't say anything other than that.

"Nothing is finalized, nothing is locked in, nothing is committed."

Buck said he hopes to work with Seidl to target not only DeConcini but Sen John McCain, R-Ariz., for their efforts to intercede with federal regulators in behalf of Charles H Keating Jr., whose Lincoln Savings and Loan later collapsed.

"What were good men going into office are now cheap politicians, bought politicians," said Buck, a Republican. "It's a wonderful defense for senators to say, 'I was only serving a constituent.' My response is: 'But at the expense of all the rest of your constituents.'"

Buck's drive to recall Mecham collected nearly 40 percent more signatures than needed and was praised by election officials for its organization and accuracy. No election was held, however, because Mecham was impeached and ousted by the Legislature.

McCain spokesman Scott Celley said he gives "very little, if any, significance" to the proposed joint recall effort. Celley said any effort to recall McCain would fail for lack of public support.

Bob Maynes, a DeConcini spokesman, said he has no idea what Seidl is up to, and would not speculate on the significance of Buck possibly joining the recall.

Seidl, who had promised a status report on the number of signatures gathered by early November, repeatedly has delayed making any announcements.

"It's hush-hush right now," Seidl said. "You'll hear big things after the weekend. There will be a major shake-up in the organization and in the recall."

He declined to elaborate, except to say that DeConcini will not be happy with the development.

Seidl has until Jan. 6 to collect valid signatures of 291,135 registered voters.

About a month ago, Seidl said he was calling off the drive in Tucson, DeConcini's home base, because even Republicans were fearful of reprisals.

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Records link Keating to BF Goodrich bid

AKRON, Ohio (AP) -- Phoenix financier Charles Keating Jr. teamed with corporate raider Sir James Goldsmith last year in an attempt to take over BF Goodrich, according to federal records.

Bank examiner records show that a subsidiary of a California savings and loan controlled by Keating bought shares of the Akron-based company and transferred them to an investment partnership Goldsmith controlled, according to a story Saturday in the Akron Beacon Journal.

The documents prepared by regulators say the Goldsmith partnership "was formed primarily as a vehicle to perform a hostile takeover of BF Goodrich."

The documents are records of federal examinations of Keating's Lincoln Savings and Loan Association of Irvine, Calif. Lincoln was closed by federal regulators last April, one day after its holding company, American Continental Corp. of Phoenix, filed for bankruptcy protection.

Regulators estimate that guaranteeing the federally insured deposits they claim the S&L lost through risky investments, real estate and tax transactions could cost taxpayers more than $2 billion.

Goldsmith never said he was trying to take over Goodrich, but speculation that he was attempting to do so coincided with a rise in Goodrich stock last year. Goodrich issued a statement in April 1988 saying Goldsmith had told Goodrich Chairman John D. Ong that there was no truth to reports he intended to acquire a major stake in the company.

Keating's activities are being investigated by the House Banking Committee and he is

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the subject of a federal grand jury investigation in Los Angeles. The U.S. Department of Justice is also investigating whether Keating, formerly of Cincinnati, broke any laws by generating $1.4 million in campaign contributions to U.S. Sens. John Glenn, D-Ohio; Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; Alan Cranston, D-Calif.; and Sen. John McCain, R-Ariz.

Goldsmith in 1986 attempted a hostile takeover of Goodyear, also based in Akron. The buyout filed, but Goldsmith sold his shares in the company for a profit of about $94 million.

His arrangement with the Keating-controlled subsidiary, AMCOR Investments, allowed Goldsmith to mask part of his interest in Goodrich, the documents the newspaper obtained under the Freedom of Information Act showed.

In return for transferring the stock to the partnership, AMCOR Investments was given an "equity interest" in Goldsmith's partnership, according to the documents.

They indicate the equity in the partnership was exchanged for 468,395 shares of Goodrich stock with a book value of $51.86 a share, a total of nearly $24.3 million. The records, dated July 11, 1988, said the Goodrich shares "have reportedly been sold" to fund another Goldsmith transaction.

Keating lawyer James Ham, in a telephone interview Saturday from Los Angeles, called the examination reports quoted by the newspaper misleading.

"If it's in the examination report, there is a likely chance the documents are misleading ... They've demostrated a misunderstanding of a number of facts," Ham said.

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Lincoln's lending unsound, its lawyers warned firm in '86

By Jerry Kammer
The Arizona Republic

Attorneys for Lincoln Savings and Loan had serious concerns as early as 1986 about the way the thrift was lending its money and "found that it engaged in unsafe and unsound practices," according to a memorandum filed late Wednesday in U.S. Bankruptcy Court in Phoenix.

Loan analyses prepared by Lincoln's attorneys "document a consistent pattern of unsafe and unsound commercial lending" at the thrift, according to the memo, filed by attorneys representing federal regulators.

The memo is likely to become a key exhibit in a separate hearing that begins today in U.S. District Court in Washington, D.C. In the hearing, Lincoln's parent company, American Continental Corp., is challenging the government's seizure of the thrift.

American Continental is arguing before U.S. District Judge Stanley Sporkin that the federal takeover in April was "arbitrary, capricious and, therefore, unlawful."

Thrift regulators are expected to point to the warnings from Lincoln's New York law firm, Kaye,

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FBI — PHOENIX

Lincoln lending unsound, firm was told in '86

LINCOLN, *from page A1*

Scholer, Fierman, Hays & Handler, to support the government's contention that the thrift was being operated improperly.

The regulators' memorandum uses the law firm's analyses of Lincoln loans to support their argument to U.S. District Judge Richard Bilby that American Continental is dissipating its cash in court battles designed to protect executives of American Continental rather than its creditors.

American Continental filed April 13 for protection from creditors under Chapter 11 of the federal bankruptcy code. Regulators seized Lincoln the next day.

The federal Resolution Trust Corp., which operates Lincoln, is American Continental's principal creditor. Bankruptcy Court proceedings are intended to protect creditors.

The memo argues that American Continental's challenge of the federal takeover is "frivolous" because the company's "litigation posture is contradicted" by its attorneys.

The memo contends that documents prepared by the New York firm show "there can be no doubt" that the firm warned Lincoln's management about its loan underwriting.

Federal regulations require thrifts to conduct careful underwriting, or ensuring that a borrower is a good credit risk.

Attorneys for the Resolution Trust Corp. refused to comment Wednesday. But their memorandum said Lincoln's New York law firm doubted the safety and soundness of:

- A $30 million unsecured loan to Tucson-based R.A. Homes.
- The refinancing of about $75 million in loans to Mesa developer Conley Wolfswinkel.
- A $50 million loan made to an unidentified borrower who, according to the firm, had a "ridiculous" financial statement showing $110 in assets.

In a $1.1 billion civil racketeering suit filed in September against Keating and several associates, regulators called the R.A. Homes and Wolfswinkel loans "sham transactions" that were part of a pattern of fraud at Lincoln.

The Arizona Republic on Sept. 14 described $50 million in loans from Lincoln to R.A. Homes, whose vice president is Ron Ober, who ran the 1988 re-election campaign of Sen. Dennis DeConcini, D-Ariz.

DeConcini has come under fire for intervening with federal regulators in behalf of Lincoln in April 1987, seven weeks before R.A. Homes received the $30 million loan from Lincoln.

Another Keating taking a beating

By Chris Knap
Orange County Register

ENCINO, Calif. — When John J. Keating and his partners formed a bank here seven years ago, they picked a name that sounded honest and substantial: Lincoln.

That was before Irvine, Calif.-based Lincoln Savings and Loan Association was purchased by Phoenix entrepreneur Charles H. Keating Jr. and was forced into federal receivership.

"Obviously, it's not a very good name anymore," John J. Keating said this week.

His bank is considering changing its name.

John Keating is no relation to Charles Keating, nor is Encino-based Lincoln National Bank affiliated with Lincoln Savings and Loan.

But try explaining that to consumers shopping for a bank.

See ANOTHER, page A10

Another Keating, another Lincoln

ANOTHER, *from page A1*

"People don't read," John Keating said. "They glance at the headlines, and they don't know, and they say, 'It must be the same.'

"We've had a nightmare with this damn thing."

John Keating had to run a meeting of his board of directors on the day a local newspaper carried the headline, "Keating and cronies to be investigated by the FBI."

Another time, his daughter came home from school to inform him that "so-and-so's grandfather is suing you," he said.

"I told her, 'Honey, no one is suing me.' "

The lawsuit is against Charles Keating and Lincoln Savings and Loan, filed on behalf of the more than 23,000 people who purchased now-worthless junk bonds from the failed thrift.

"For a while, I figured it's better to do nothing," John Keating said. "I thought they would close it (Lincoln Savings), and that would be that. I knew I had a big problem when I read that five (U.S.) senators were involved. Then I knew people would be making political hay out of it all next year.

"Now we are seriously considering changing the name of the bank."

John Keating believes that Lincoln National Bank lost a deal Monday because the borrowers thought the institution was bankrupt and switched to Bank of America.

"We don't know how many people are frightened off that we never do get to see," Keating said.

He said that the firm earned $4.4 million in the first nine months of the year but that its stock price has declined several points.

"I wouldn't be surprised at that," said Jerry Findley of Brea, Calif., author of *The Findley Reports*, a trade publication that rates bank stock.

Findley described Lincoln National as "an excellent institution" but said the Lincoln Savings collapse has been giving John Keating "fits."

John said he went to Detroit last week only to run into headlines about a third Keating, Detroit Newspaper Agency executive William Keating, brother of Charles and co-defendant with him in a civil suit brought by federal regulators.

"It's following me from town to town," John Keating lamented.

The Lincoln National Bank board of directors is trying to decide what the institution's new name should be.

John Keating joked that he plans to change his name, too.

He's chosen Fielding Mellish, the hapless dictator in the Woody Allen film *Bananas*.

"I'll just use something bizarre because this whole thing is bizarre," he said. "If you can't laugh at it, you can't do anything."

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Riches to ruin: The meteoric life of Charles Keating

'He took charge of everything'

As Charles H Keating Jr.'s financial empire collapses, thousands of investors have lost their life savings, many have lost their jobs, the Arizona economy has suffered, and dozens of politicians have become entangled in "Charlie's Web." Who is Charles Keating?

Story by Carol Sowers, Andy Hall, Jerry Kammer and Lisa Morrell with research assistance from John Doherty.

The window shattered as a squarish object was hurled from the second-floor office at the posh Phoenix headquarters of Charles H Keating Jr.'s American Continental Corp.

It was May 20, 1988. Decorum — and a computer — had just gone out the window.

A victory celebration had begun.

There was Keating, a trim, 6-foot-5 former champion swimmer, striking a *Superman* pose, unbuttoning his shirt in front of his employees to expose a T-shirt with a hand-drawn skull and crossbones over the letters "FHLBB" — Federal Home Loan Bank Board.

A secretary climbed atop a desk to photograph the revelers. Robert Kielty, an American Continental executive, joined her on the desk — close enough for Keating to lash their legs together with a roll of transparent tape.

Employees tossed beer bottles over expensive, carved wood desks and knocked over potted plants. Kielty grabbed a bottle of champagne and poured it down the front of another secretary's blouse.

"Get this champagne colder!" Keating yelled.

Some workers were amazed, watching the antics of their normally button-down boss, a public moralist who first gained national prominence as an anti-pornography crusader.

But Keating was ~~celebrating~~. He

— See A CLOSER LOOK, page A14

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A closer look at the faces of Keating

— A CLOSER LOOK, *from page A1*

had just won a two-year battle with federal thrift regulators who had contemplated seizing Lincoln Savings and Loan, the centerpiece of his $6 billion financial empire.

He had only won time, though.

On April 14, 1989, less than a year after the victory celebration, the regulators seized Lincoln, contending that the thrift was financially "unsafe and unsound."

Lincoln's collapse is projected to cost taxpayers up to $2.5 billion, which would make it the costliest of the nation's nearly 300 thrift failures.

As the "why" questions are being asked, at least three portraits of Keating have emerged:

- An aggressive, visionary entrepreneur and tough competitor who would have succeeded if not for incompetent and vindictive federal regulators.
- An insatiable gambler who, because of S&L deregulation, was able to play recklessly with other people's money and did so extravagantly.
- A con artist who deliberately set out to make himself wealthy by looting his savings and loan and defrauding investors.

Criminal probe under way

Rep. Jim Leach, R-Iowa, during a House Banking Committee hearing, called Keating "a financiopath of obscene proportions, the Reverend Jim Bakker of American commerce; ..."

Keating has not been charged with any crimes, but federal criminal investigations are under way.

He and 10 associates, including five relatives, are named in a $1.1 billion racketeering lawsuit, the largest government bank-fraud civil suit in U.S. history.

"You know we're just ruined, our reputation, our image, our economics," a shaken Keating told *The Arizona Republic* in July in one of his last interviews with the press. "We're ruined people. We've been destroyed."

Charles Humphrey Keating Jr. was born on Dec. 4, 1923, the son of a Cincinnati dairy executive.

When Charlie was young, his father was stricken with Parkinson's disease, a degenerative disease.

Charlie watched as his mother, Adelle, turned his father in bed so the bedsores would heal.

His father's illness made Keating "appreciate life a lot more than anybody I've ever met," observed his only son, Charles Keating III.

"My dad loves to have a good time," Charles said. "He'll get totally crazy, and people will think he's being obnoxious, but he's just having fun."

There were unmistakable clues as Charles Keating Jr. grew up that he would be hard to ignore.

"I think he was always a leader, very aggressive," said Ted Thoma of Cincinnati, who has known Keating for 50 years and attended St. Xavier High School and the University of Cincinnati with Keating, where he became an All-American swimmer in 1946.

Keating organized his friends "into teams of every kind. He just took charge of everything," Thoma said.

"He was a one-man gang. We were followers."

Keating joined the Navy at 17 and learned to fly. He never saw combat but survived a crash during training near the end of World War II.

He later recounted that, as he was about to land his plane on a southern Florida runway, he was thinking about a date with a pretty young woman and forgot to lower his landing gear. He jumped out unhurt as the plane bounced down the airstrip and burst into flames.

When he returned to Cincinnati after the war, Keating persuaded University of Cincinnati officials to allow him into law school, even though he had finished only six months of undergraduate work.

"I was somewhat of an athlete and the schools were all empty, and actually I had a lot of courses in the Navy that were highly acceptable," Keating told *The Republic*. "They just let me in."

In 1949, he married athletic, outgoing Mary Elaine Fette. They had six children, five girls and a boy.

In law school, Keating met John Meuthing, and in 1953 they formed a law firm. That move propelled Keating into the orbit of financier Carl-

Lindner, who hired the firm to represent his American Financial Corp., now a multibillion-dollar holding company. In 1972, Keating became an American Financial executive vice president.

One of American Financial's first big acquisitions was Provident Bank in a hostile takeover that Keating finessed by spending months going door to door persuading stockholders to sell their stock.

Helped brother win post

He also jumped into politics in Cincinnati, helping his younger brother, Bill, win a City Council post and then two terms in Congress from 1970 through 1974.

Keating built a reputation in Cincinnati as a wily financier who stoked a blazing hatred against pornography. At the urging of a priest during a Catholic retreat, Keating gathered friends together in 1956 and established Citizens for Decent Literature.

He broke new ground in the prosecution of pornographers, participating in raids and for the first time using expert witnesses in trials to testify about the harmful effects of pornography, which he said was "engulfing this nation in a tidal wave of filth and turning her along the path of moral corruption and decay."

In 1973, celebrating an anti-pornography ruling by the U.S. Supreme Court, Keating thundered, "The decent people of America, backed by the United States Supreme Court, are going to wage a holy, yes, a holy war, against the merchants of obscenity. From this day forward I will not rest, and no one connected with CDL (Citizens for Decent Literature) will rest, until every pornographer in America is out of business, in jail, or both."

Keating's son said his father is convinced that, in the mid-70s, the publisher of a pornographic magazine urged that one of Keating's relatives be sexually assaulted. The assault occurred, and the resulting trauma, his son said, convinced Keating that his public activism bore a private price.

Citizens for Decent Literature changed its name in 1973 to Citizens for Decency Through Law. Keating took the organization with him in 1976 when he was moved to Phoenix to revive American Financial's ailing home-building subsidiary, Continental Homes.

Keating said he looked upon Arizona as a place to build "sort of a new life."

He bought Continental Homes from American Financial in 1978 and formed American Continental Corp., which prospered under his direction.

But an old mistake came back to haunt him. In 1979, at the end of a lengthy investigation, the U.S. Securities and Exchange Commission accused Keating and Lindner of fraudulently diverting American Financial assets through $14 million in improper loans to associates.

The two signed a consent decree in which they admitted no guilt and Lindner agreed to pay his own corporation $1.4 million. Keating would regret signing the decree. He claimed that in 1981, President Reagan offered to appoint him ambassador to the Bahamas, but that controversy about the consent decree caused the offer to be withdrawn.

Continental Homes became one of the leading home builders in the state. But Keating's heart wasn't in it.

His associates said he longed for the challenge, exhilaration and risk of the stock market, land development, junk bonds and leveraged buy-outs. The 1982 deregulation of the savings and loan industry, which allowed thrifts to leave their traditional home-mortgage market and enter into the bigger world of high-stakes finance, gave him his chance.

Lincoln purchased in 1984

Keating made his move in 1984. With $51 million raised from a junk-bond issue by Michael Milken of Drexel Burnham Lambert, he bought Irvine, Calif.-based Lincoln Savings and Loan. The next year, he sold Continental Homes so he could concentrate on Lincoln.

"What attracted me was never the money or the reputation of American Continental; it was Charles Keating the man," said Patricia Johnson, who was recruited by Keating at a party to be the firm's public-relations director.

Soon after joining the company, Johnson got a taste of the money.

She had damaged a pair of shoes while gathering information for reporters after a fire destroyed six condominiums at The Phoenician Resort in July 1988.

The next morning, Johnson recalled, Keating insisted on replacing her shoes.

"Would $5,000 be enough?" Keating asked.

She received the check after Keating explained that some employees received clothing allowances.

Visitors to the swank offices of American Continental Corp., 2735 E. Camelback Road, where banks of computers monitored financial markets worldwide, would comment about the appearance of the staff.

"The employees all had to have a certain, wholesome look," said a former employee. "The Keating look."

To reward the talent and guarantee the look, Keating on at least one occasion flew some female employees in a corporate jet to Beverly Hills, Calif., gave them $1,000 each and told them to go shopping on Rodeo Drive, said a former associate who was on such a trip.

Some male employees were rewarded with fishing trips to King Salmon, Alaska, said a former employee, who displays in his office pictures of fish he said he caught there.

Keating demanded loyalty, absolute and unquestioning. Those who showed independence were often fired, usually on a Friday afternoon.

In fact, firing people became a rite of passage for promising American Continental executives.

"In order to bring someone, especially a woman, out of the minor leagues, when they have just been promoted, we let them fire somebody," American Continental executive Judy Wischer told a women's seminar last year.

Employees rewarded

Those who performed as expected were paid handsomely.

"Charlie put his people in golden handcuffs," said a former employee.

Keating paid himself an estimated $3 million a year in salary, stocks and bonuses.

Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times. Charles Keating III, who at 31 earned $800,000 a year as an American Continental vice president, acknowledged that his father stitched his business and family into a single, tight fabric.

In vigorous bursts of loyalty, his family and many of his employees share his victories and loathe his enemies.

In a March memo to employees, son-in-law Robert Hubbard, an American Continental vice president, warned them to beware of reporters' "insane quest to destroy ACC or CHK" and said an "out-of-control newspaper can be cruel in its disregard of a person's rights."

— See CHARLES, page A15

Charles Keating Jr.: From riches to ruin

CHARLES, *from page A14*

Driven, determined, dogged, Keating was contemptuous of federal regulators. He scorned them as rigid, unimaginative bureaucrats incapable of understanding his entrepreneurial vision. He thought they were out to destroy him because he refused to bow to their rules.

Keating sought help in his battles against bureaucracy by lavishing campaign contributions on local, statewide and national incumbents and hopefuls.

"He never lost a zoning case," said former Phoenix City Councilman Ed Korrick, who said he was not among the politicians who received Keating money.

The most controversial flexing of Keating's political muscle came in April 1987, when he called on five U.S. senators to complain that thrift regulators were being unfair. The senators, who Keating had given a total of $1.4 million in campaign contributions, met twice with regulators. Those meetings have since been challenged as an abuse of power, although the senators deny any improprieties.

Threatened futures

The episode has threatened the political futures of the "Keating Five" — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — and is the subject of inquiries by the Senate Ethics Committee and the FBI.

Keating sees nothing wrong with paying for politicians' influence, saying in April that, "We have the right to seek their help when we need it and demand it when justified."

Keating bluntly explained the purpose of his huge political contributions:

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters. "I want to say in the most forceful way I can: I certainly hope so."

But the government's racketeering suit, filed in September, contends that the money was never Keating's to give away, and accuses him of looting Lincoln's federally insured deposits to fulfill his own political and social agendas.

From his huge donations to Mother Teresa, a nun who helps the destitute and dying, to the well-cut suits and $75 Hermes ties, Keating's searing desire has always been to look good.

Keating has carefully constructed an image as a doer of good deeds, philanthropist, defender of American virtue and devout Catholic.

At least twice, Keating has taken his family to the village of Medjugorje, Yugoslavia, where some Catholics claim the Virgin Mary appears to them.

And last year he flew a priest from Medjugorje to Phoenix, where more than 500 people joined Keating in reciting the rosary in the Crescent Hotel ballroom.

Friends and associates say he wants desperately to be liked. But he has ignited furious hatreds, especially among the 23,000 buyers of American Continental bonds, many of whom claim they were tricked into believing that the $230 million they collectively lost was federally insured.

"You don't go around taking people," said an angry 74-year-old man who bought $24,000 of Keating's uninsured bonds.

"There's been people shot for less."

Keating says he intends to repay the bondholders within 13 years.

Among Keating's defenders is Conley Wolfswinkel, a Mesa developer who received more than $100 million in loans from Lincoln Savings.

Wolfswinkel said he has "learned to really respect and admire" Keating and has enjoyed Keating's zest for making deals. He denounces regulators' claim in their racketeering suit that one huge Keating deal with Wolfswinkel was a "sham" sale that allowed Keating to record millions of dollars in phony profits.

Possessions sold

"I think that as the whole story unfolds and as testimony comes out on these deals, you're going to see this whole thing turn," he said.

He accused the regulators of making Keating a "scapegoat" for the thrift industry's problems.

Pressed to raise cash, Keating has sold two vacation houses on Cat Cay in the Bahamas and his boat, according to Keating's son. The private jets and helicopter are also sold, but Keating has hung onto his Paradise Valley home.

Until a takeover by federal thrift regulators in November, Keating also held onto his two hotels, the Crescent, off the Black Canyon Freeway at Dunlap Avenue, and its regal younger sister, The Phoenician Resort, embraced by Camelback Mountain. They are glittering monuments to Keating's

love of luxury and extravagance.

"Charlie only knows one class, and that's first class," said a former employee who recalled that when the hotels were under construction, Keating repeatedly and impetuously ordered costly changes.

Keating brought the same grandiose style to his savings and loan, taking risks with loans and investments that alarmed federal regulators. Ultimately, his high-flying brought him down, overwhelming Lincoln in a furious whirlwind of bad loans and failed investments.

Lastly, lunching on halibut at The Phoenician's restaurant, Mary Elaine's, named after his wife, Keating said he regretted the purchase of Lincoln "daily, moment by moment."

"It's ruined my life."

CHARLES H KEATING JR.'S HISTORY

1923: Born in Cincinnati, the first of two sons of a dairy executive.

1941: Joins the Navy and is trained as a pilot.

1948: Earns law degree at University of Cincinnati.

1949: Marries Mary Elaine Fette. They raise six children.

1953: Becomes a senior partner in a law firm that represents financier Karl Lindner's American Financial Corp.

1956: Forms anti-pornography organization, Citizens for Decent Literature, which is later renamed Citizens for Decency Through Law.

1969: Campaigns for younger brother, Bill, who wins his first of two terms in the U.S. House of Representatives.

1972: Becomes executive vice president and director of American Financial.

1976: Moves to Phoenix from Cincinnati to take over Continental Homes Inc. of Arizona for its parent company, American Financial Corp. He acquires the firm and creates American Continental Corp., becoming its chairman and president.

1979: Signs a consent decree with the U.S. Securities and Exchange Commission, which had alleged that during his tenure with American Financial he helped make $14 million in improper loans to insiders of a Cincinnati bank controlled by American Financial.

1984: Buys Lincoln Savings and Loan Association of Irvine, Calif., with $51 million raised in a junk-bond issue through Drexel Burnham Lambert's Michael Milken. Lincoln immediately turns away from home-mortgage lending and uses federally insured deposits for such high-risk investments as undeveloped land and junk bonds.

1985: Sells Continental Homes. Concentrating on Lincoln Savings, Keating battles regulators who want to limit its high-risk investing.

1986: Accuses thrift regulators of harassment as they begin a lengthy examination of Lincoln's books that will lead to allegations of fraudulent land transactions and mismanagement.

April 2, 1987: At Keating's request, Senators Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., join Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet in DeConcini's office with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's S&L.

April 9, 1987: The four senators, along with Sen. Donald Riegle, D-Mich., meet again in DeConcini's office with officials from the bank board's San Francisco office.

May 1, 1987: The San Francisco-based regulators of the bank board recommend that Lincoln, although solvent, be seized for operating in a financially unsafe and unsound manner and dissipating its assets. Two months later, M. Danny Wall succeeds Gray as bank-board director.

May 20, 1988: The bank board shifts responsibility for supervision of Keating's thrift from San Francisco to headquarters in Washington. In Phoenix, Keating leads employees in raucous celebration.

December 1988: A bank-board report says Lincoln does not have the capital required by regulations.

April 13, 1989: American Continental Corp. files for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

April 14, 1989: Bank board takes over Lincoln, claiming it is operating in an unsafe and unsound fashion. Losses are estimated to have increased by $1 billion in the two years since San Francisco recommended seizure.

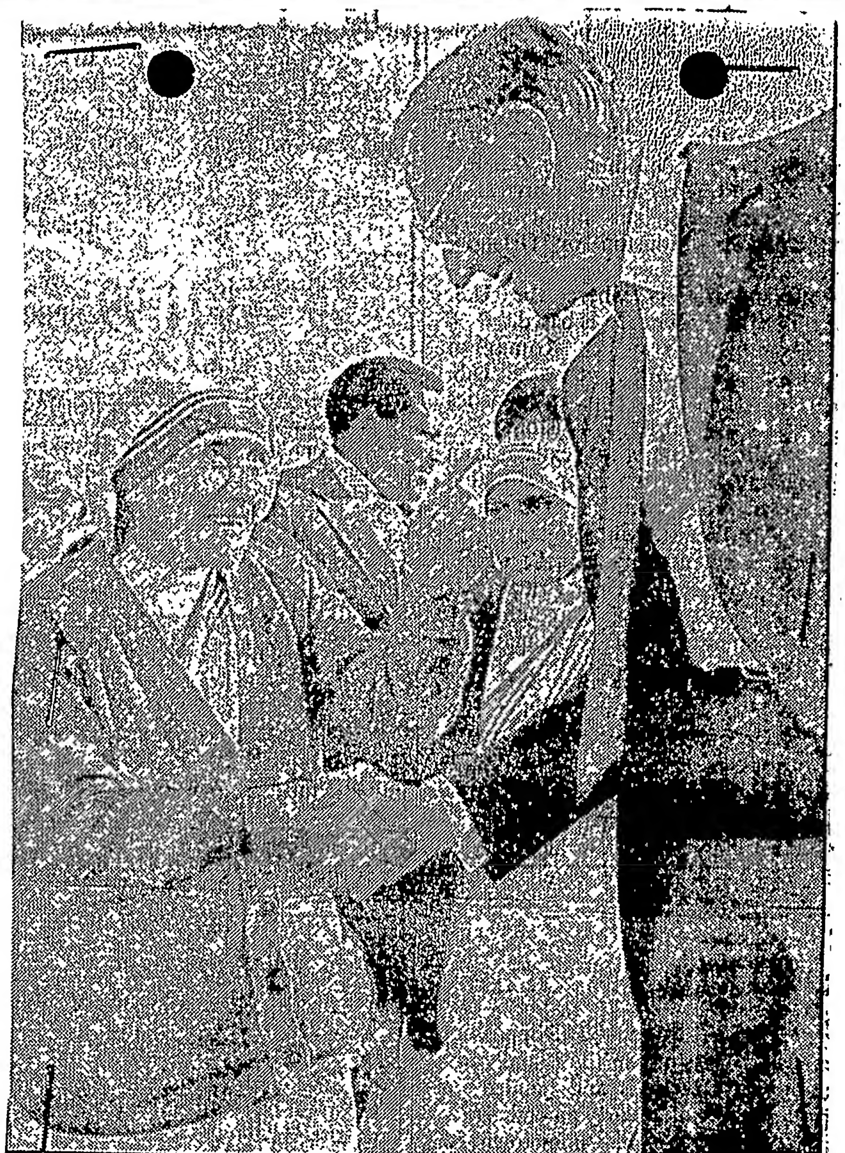
Sept. 15, 1989: The Resolution Trust Corp., a new agency with jurisdiction over Lincoln and other insolvent thrifts, seeks $1.1 billion from Keating, his relatives and associates in a fraud and racketeering suit alleging that Keating diverted depositors' money for his own use.

Oct. 17, 1989: Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, launches the first of at least six hearings investigating Lincoln's collapse. Federal Deposit Insurance Corp. Chairman L. William Seidman estimates that taxpayers will have to spend $1.5 billion to $2 billion to cover Lincoln's federally insured losses.

Nov. 16, 1989: Federal regulators and FBI agents remove Keating and his associates from management of the Crescent and Phoenician hotels in Phoenix. The takeover is made possible when Keating's Kuwaiti partners, who own a 45 percent interest in the hotels, drop their support of Keating and allow federal officials to appoint new managers. A Lincoln subsidiary holds a 55 percent interest in both hotels, but management changes required the consent of holders of 75 percent of the stock.

Nov. 17, 1989: Senate Ethics Committee hires Washington, D.C., attorney Robert S. Bennett to investigate whether the senators who met in 1987 with federal regulators were improperly influenced by Keating's contributions to their campaigns and/or related political organizations.

Nov. 21, 1989: Keating invokes his Fifth Amendment right against self-incrimination and refuses to testify before the House Banking Committee.



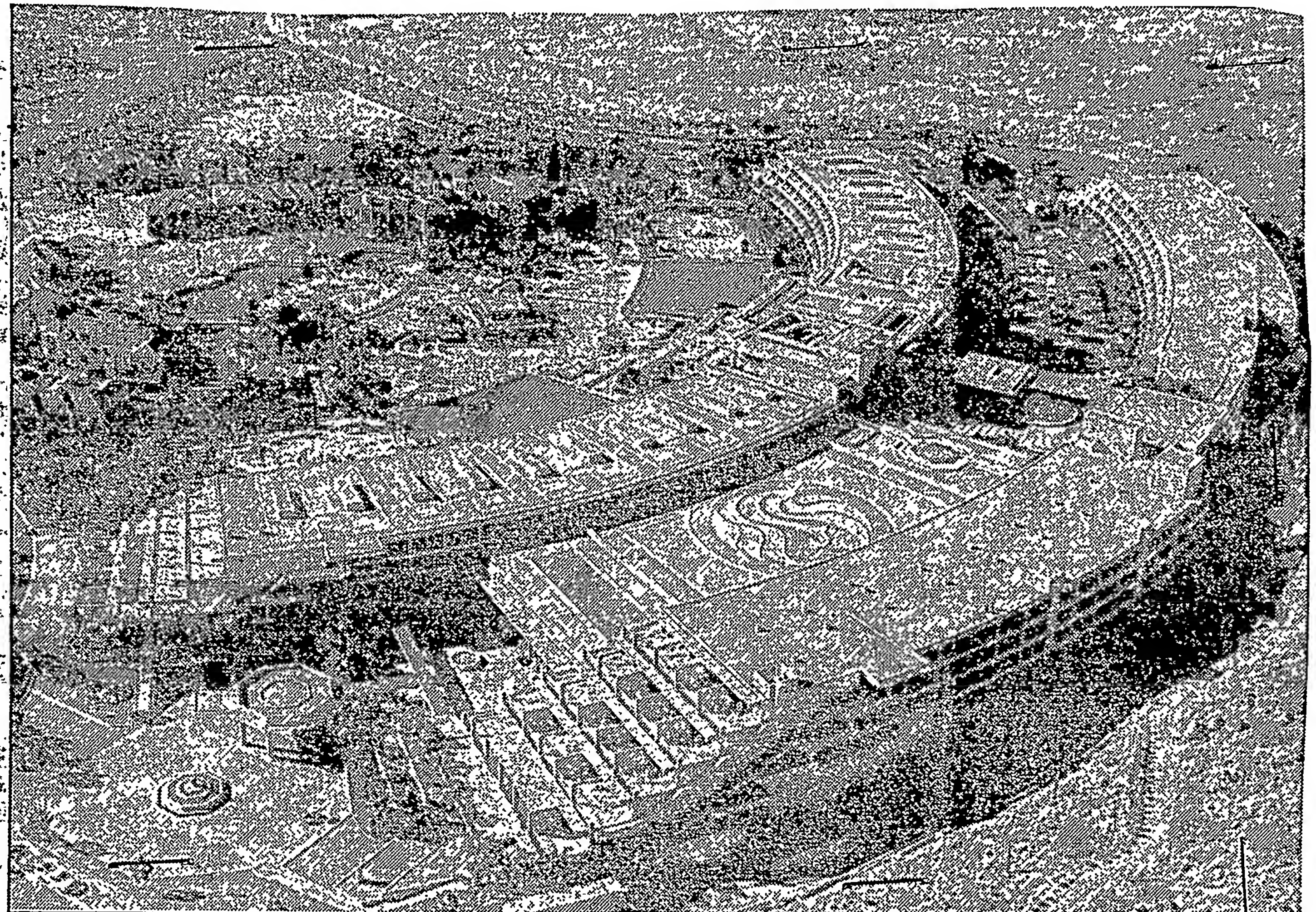
The Arizona Republic

Keating, who has cultivated his image as a devout Catholic, has made huge donations to Mother Teresa, a nun who helps the destitute and dying.

Keating held his wife, Mary Elaine, close during a news conference earlier this year. The other people are not identified. Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times.

Michael Meister / The Arizona Republic

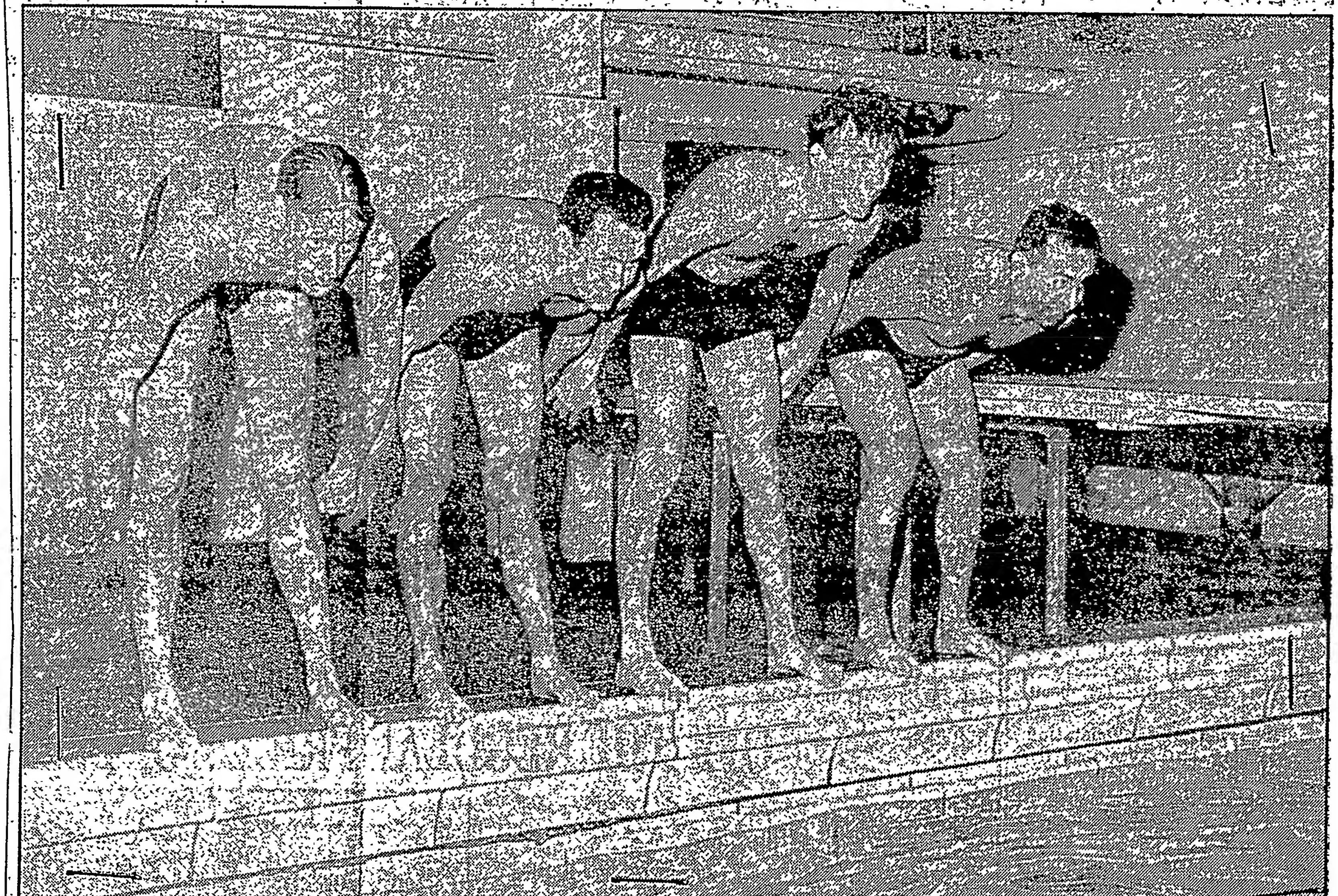
Friends and associates say Charles H. Keating Jr. wants desperately to be liked. However, the entrepreneur who formed American Continental Corp. has ignited furious hatreds.



The Phoenician Resort (pictured), embraced by Camelback Mountain, and the Crescent, off the Black Canyon Freeway at Dunlap Avenue, are glittering monuments to Keating's love of luxury and extravagance. "Charlie only knows one class, and that's first class," says a former employee.

Tom Story/The Arizona Republic

CHARLES KEATING: FROM RICHES TO RUIN



Sports Information Office/University of Cincinnati

Charles H Keating Jr. (left) was a swimmer at the University of Cincinnati. A fellow student at the school says Keating "was always a leader, very aggressive."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Financial victims of Keating empire

Creditors are left waiting in wings

By Lisa Morrell
The Arizona Republic

David York isn't interested in the national scandal surrounding the fallen empire of Arizona businessman Charles H. Keating Jr. and his Lincoln Savings and Loan.

All York wants is the $130,000 he claims he is owed for making the trellises and handrails for Keating's $260 million Phoenician Resort. The money could mean the difference between survival and extinction for York Metal Fabricators, his 25-year-old family business in Oklahoma City.

> American Continental Corp.'s failure will touch the life of virtually every person in the United States. Most are affected slightly. Thousands of victims, though, are suffering from the loss of their savings, their jobs or reputation. These are some of their stories, by Lisa Morrell of *The Arizona Republic*.

"We're struggling," York said. "I'm surprised we've hung on this long."

York said that once again, there will be no Christmas bonuses for his two dozen employees this year.

As a creditor, York became a victim when Lincoln's parent company, American Continental Corp., and 11 Lincoln subsidiaries filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code on April 13. That was one day before federal thrift regulators seized Lincoln and its $5 billion in assets.

York and other creditors now have to wait for the Bankruptcy Court to resolve the matter.

He and thousands of others have been victimized by the thrift's failure because of the loss of investments, jobs, equity or just professional reputation.

Citizens' confidence in government and certain elected officials has been shaken.

Arizona's economy has been hurt by the repercussions of American Continental's failure.

Every U.S. taxpayer is victimized, because it ultimately will cost each one about $20 to cover Lincoln's federally insured losses.

Some victims may recover some of their losses through lawsuits, but nearly every one of them will lose financially or psychologically:

TAXPAYERS

The nation's 100 million taxpayers make up the largest group of victims in the fall of Keating's empire.

Lincoln's loss, estimated at $2 billion, is potentially the largest single

— See CREDITORS, page A14

(Indicate page, name of newspaper, city and state.)

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Creditors reeling in the rubble of American Continental

— CREDITORS, *from page A1*

bailout in the nationwide S&L debacle.

The bailout is expected to cost $160 billion, more than the $140.6 billion spent by the United States to fight the Vietnam War.

"The S&L bailout, which was in many ways the biggest consumer rip-off in American history, was made necessary because of the activities of alleged swindlers like Mr. Keating," said Michael Waldman, director of Public Citizens Congress Watch of Washington, D.C., a consumer-advocacy organization founded by Ralph Nader.

Keating attorneys have refused to answer questions about the case.

BOND INVESTORS

Count investors as the hardest-hit individuals in the collapse, especially the 23,000 people who invested more than $230 million in American Continental's unsecured junk bonds. More than 540 of those investors are Arizona residents.

Bondholders claim they were duped into believing the now-worthless, high-risk bonds were safe investments. They are among the investors who say they were given a misleading financial picture of American Continental and are suing the company in California and Arizona.

The bondholders, as a group, have concluded that government officials were aware of American Continental's poor financial condition but failed to cease the bond sales. They want the government to compensate them for their losses as though the bonds were federally insured.

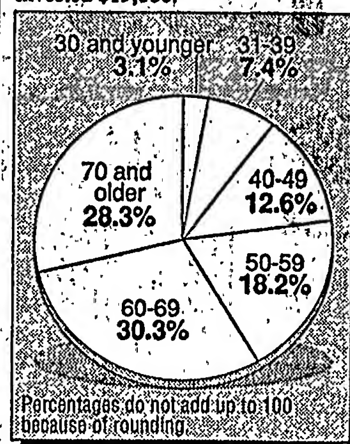
Leah Kane, an organizer of bondholders in Laguna Hills, Calif., said the stress of losing their life's savings has caused some older investors to suffer heart attacks, headaches and other illnesses.

STOCKHOLDERS

American Continental's 1,221 stockholders have seen the value of their shares fall to 5 cents from $7 in February.

AGES OF AMERICAN CONTINENTAL CORP. BONDHOLDERS

From 1,100 interviews with bondholders by investors' attorneys. On average, each bondholder invested $19,000.



The Arizona Republic

Federal Securities and Exchange Commission filings last year showed that 15 top executives, including Keating and his family members, owned 13.9 million, or 87 percent, of the Phoenix company's 15.9 million common shares outstanding. Based on those numbers, that insider group saw its stock holdings drop to $695,000 from $97.3 million.

A stockbroker, who asked not to be identified, said he recommended American Continental to clients and invested heavily himself. He said he is taking heat now.

"Everything's been construed as if we were the villains instead of the victims," he said.

He said he never would have invested had he seen a true financial picture of Lincoln and American Continental. He blames American Continental and its accountants for duping investors.

CREDITORS

More than 25,000 businesses and individuals are owed more than $2.7 billion by American Continental and 11 Lincoln subsidiaries. For now, those creditors must wait while the Bankruptcy Court oversees the companies' reorganization.

Ten of the 11 Lincoln units now under government control can cover their debts, but it'll be a long time before creditors get any money.

American Continental creditors face an even bleaker outlook, because the company has $210 million in assets against debts of $388 million.

The owner of a small pool-supply store in Phoenix who is owed $14,000 by American Continental and who didn't want his name published said he has had to cut his monthly income in half since the company's bankruptcy filing.

BOND SALESPEOPLE

Even the American Continental and Lincoln Savings and Loan employees who sold the now-worthless American Continental bonds consider themselves victims.

Many believed so much in what they were selling that they invested or persuaded family members to invest. Forty current employees of Lincoln, which is based in Irvine, Calif., and their families invested a total of $1 million in their employer's bonds that they have now lost, according to a survey by Lincoln's current management.

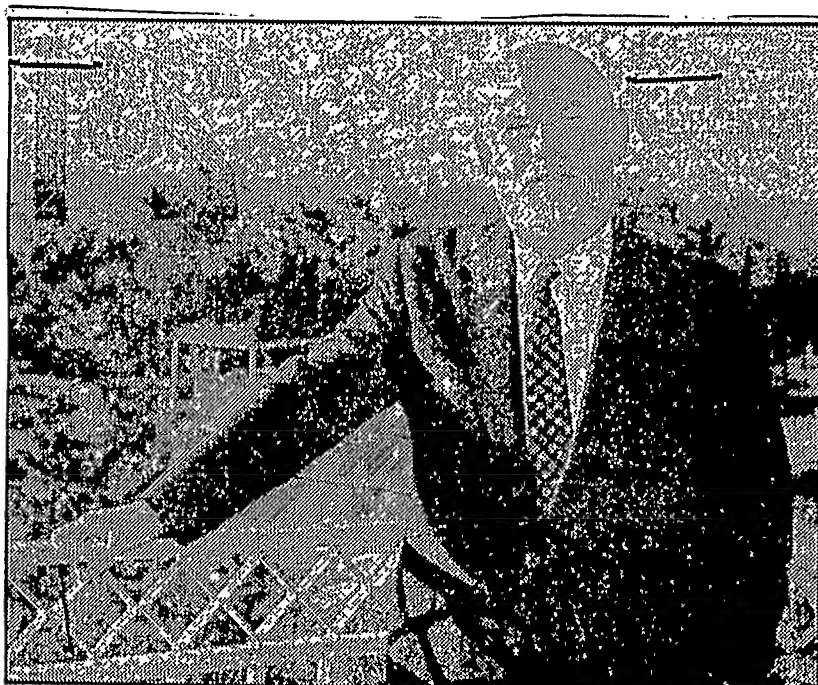
OTHER EMPLOYEES

At least 250 of about 2,500 American Continental employees were laid off this year as the firm sought to cut expenses. Many are finding that their affiliation with Keating is hampering their job search.

After the former public-relations director of American Continental wasn't receiving even initial responses from at least five potential employers, she began calling them to ask why.

"They said they weren't interested in getting involved in the controversy (surrounding Keating)," said Patricia Johnson, a 12-year veteran of the public-relations business. Her job was eliminated in April.

Employees of Lincoln Savings said



Charles Krejcsi/The Arizona Republic

Gerald Murphy heads the firm that built The Phoenician. In 1988, Charles H Keating Jr. stopped paying the builder, saying subcontractors did shoddy work.

they suffered uncertainty and worry from the federal regulators' seizure of Lincoln's operations in Arizona and California, including Lincoln's offices in both states and the Phoenician Resort in Scottsdale.

Government managers fired some employees. Others have left or want to leave because they see no future with government-run Lincoln," one employee said.

BUSINESS ASSOCIATES

In October 1988, after the Phoenician Resort opened, Keating stopped paying the builder of his lavish resort, McCarthy Western Constructors Inc.

Keating said McCarthy's subcontractors did shoddy work and overcharged him.

McCarthy sued Keating's companies for $20 million.

Keating countersued, accusing the contractor of racketeering.

Gerald Murphy, president of McCarthy, maintains the subcontractors did top-notch work. About 50 of those subcontractors still are owed money.

Although most of his customers know McCarthy is a solid company, Murphy said, the dispute with Keating has hurt business.

Murphy said his firm was rejected for two projects totaling $50 million because of project managers' concerns about problems with the Phoenician Resort.

With the federal government now in control of the Phoenician Resort, Murphy hopes to negotiate an out-of-court settlement with the government.

A Japanese company in partnership with American Continental believes the company cheated it out of more than $10 million, according to Douglas Brown, a Los Angeles attorney representing Taiyo Real Estate Co. of Kyoto.

Since 1986, American Continental "took over money and then basically didn't do anything," Brown said.

Taiyo stands to lose money it gave Keating's companies for a 60 percent interest in The Crossings, a residential and commercial project in Mesa. Taiyo filed suit against American Continental and others in early 1989 in U.S. District Court in Los Angeles. The bankruptcy action has put the lawsuit and project on hold.

ARIZONA ECONOMY

American Continental's downfall ranks among the biggest single financial disasters in Arizona's history.

The avalanche of publicity nationwide about Keating's woes has furthered the image that Phoenix is in an economic downturn, said Elliott Pollack, chairman of Pollack/Ramras Cos. of Phoenix, a real-estate development and economic consultant.

Real-estate experts say added negative publicity could scare off investors and dampen business opportunities.

Other Arizona developers have been burned in the real-estate crash that followed the frenzy of land speculation in the mid-1980s, said Philip Dion, chairman of Del Webb Corp. of Phoenix, a retirement-community developer.

"Lincoln was certainly one of the major players that pushed prices way beyond economic reality," he said.

Lincoln's assets total $2 billion to $3 billion of the $13 billion that are under federal thrift managers' control in Arizona.

"What the Lincoln thing threatens to do is to intensify the downturn in real-estate values and prolong the turnaround," said Robert Eggert, chief economist of Eggert Economic Enterprises Inc. in Sedona.

CHARITIES

Keating, through American Continental, contributed heavily to charities. From 1984 to 1986, the company gave more than $6 million to charities in the Phoenix area and worldwide, including Mother Teresa's Missionaries of Charity.

American Continental's crash has changed all that.

— See KEATING, page A15

Keating leaves trail of victims

— KEATING, *from page A14*

Paul Gesicki, acting director of the St. Vincent de Paul Society in Phoenix, said American Continental has informed the society it is unable to contribute any longer.

The loss of the $100,000 the company promised for each year until 1993 "makes it more difficult to survive each month," he said.

POLITICAL SYSTEM

The influence-peddling scandal surrounding five U.S. senators who went to bat for Keating after they received hefty contributions has shaken people's faith in the integrity of the country's political system and discourages them from participating, said Waldman, of Public Citizens Congress Watch.

He said the case is a "microcosm" of the problem of politicians serving contributors at the expense of constituents.

The senators — Republican John McCain and Democrat Dennis DeConcini, both of Arizona, and Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — had two unusual meetings in April 1987 to question thrift regulators who were bearing down on Keating's questionable business practices. Their campaigns or related political organizations had taken in about $1.3 million from Keating, his family or associates.

"When large contributors can win the ear and support of members of Congress, that gravely damages the system's ability to represent all citizens," Waldman said.

The relationships between Keating and the senators highlight the need for campaign-finance reform, he said.

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(Mount Clipping In Space Below)

Varied tacks of 'Keating 5'

Styles differ in reactions to political crisis

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — The approach of Sen. Dennis DeConcini, a lawyer, is judicial: Answer precisely the questions but volunteer little else.

The response of Sen. John McCain, a decorated Navy pilot, is to attack as if it were a combat exercise: With battle position under constant review, vigorously and loudly launch offensives on all fronts.

The strategies of the two Arizona senators to the Charles H Keating Jr. and Lincoln Savings and Loan Association scandal show stylistic differences between the two and their contrasting political aspirations.

But the approaches also reflect the seriousness of the scandal enveloping the senators and three other colleagues, Alan Cranston of California, Donald Riegle Jr. of Michigan and John Glenn of Ohio. The senators have come to be known as the Keating Five.

Mervin Field, a California pollster, said the Keating affair is unlike recent national scandals in that it does not just involve an impersonal federal bureaucracy and the "usual transgressions" of faceless public officials.

Villains and victims

Field said this scandal has identifiable "villains" — an influence peddler (Keating) and those he tried to buy (the senators). There are real-life victims, too: U.S. taxpayers and about 23,000 mostly elderly investors whose American Continental Corp. bonds became worthless when the firm filed for Chapter 11 protection from creditors under the U.S. Bankruptcy Code.

"Once an elected official has to start explaining his acts in a defensive way, he's in trouble," Field said.

Norman Ornstein, a political analyst with the American Enterprise Institute, said all five senators are tainted. But he said it is too early to assess the long-term political damage.

Ornstein also said partisan politics could make matters worse for McCain, the only Republican in the group. He said Democrats are likely to work to counter McCain's efforts to distance himself.

"The political dynamics are such that Democrats are not going to allow this to move to the Keating Four," Ornstein said.

McCain, 52, a decorated Navy pilot who was a prisoner of war in North Vietnam, has been the only one of the five to take a high-visibility approach. Cranston, Riegle and Glenn only recently have even begun speaking publicly.

Opinion polls

McCain, in his first Senate term after two terms in the House, assembled former and current staffers in a meeting to review his efforts in Keating's behalf, and McCain said he plans to conduct public-opinion polls to assess the damage.

At the outset, he attempted to extricate himself from the affair by holding a full-blown news conference in Phoenix.

But McCain dumped this strategy within days after it became apparent that an investigation launched by the House Banking Committee would put the national spotlight on the issue and that the attention could not be contained.

McCain then embarked on an

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aggressive national-media campaign in an effort to portray himself as open and ethical. He has appeared on major news shows on every national television network.

He stresses how he told regulators during the second of two controversial April 1987 meetings that he wanted no special favors done for Keating, with whom he had been friends for about seven years.

GOP is watching

The national Republican Party, mindful that if McCain could distance himself from the affair it would become another Democratic ethics problem, has been watching the case and supports McCain's media strategy.

"Arizona is an important state for us, and so we always watch those who have served the party well," said Leslie Goodman, Republican National Committee spokeswoman. "We always watch the stars within the party."

McCain has been widely mentioned as a possible candidate on some future Republican presidential ticket.

His temper has flared during the ordeal. He has been verbally abusive and sarcastic in response to reporters' questions, except in public.

DeConcini, 51, a former prosecutor, also called together his past and current staff to comb through appointment books and telephone logs to bolster his claim that he often has gone to bat for constituents, even those who contributed generously to past campaigns.

He has been visible to his Arizona constituents, making numerous appearances each weekend, but he has avoided the national news media. He has answered precisely the questions posed about his role, but has offered to say little else.

DeConcini-recall bid

Even before the scandal, DeConcini's popularity was suffering as a result of questionable land deals and an uproar over his sponsorship of efforts to ban some assault weapons. The issue sparked a recall campaign, and it is not uncommon to see bumper stickers in Arizona that say, "Dump DeConcini."

But DeConcini, like Riegle, does not face re-election until 1994, and it is not even certain that he will opt for another race. He said last week that he broke his earlier pledge not to seek a third term because his agenda remained unfinished. But he said being "under siege" makes it difficult to fulfill that goal.

Until last week, Cranston had left his press secretary to fend off unrelenting press inquiries that peaked when a group of elderly bondholders singled out Cranston for blame for the loss of their investments. They said his role in the debacle betrayed their trust.

Cranston, along with DeConcini, has been criticized for continuing to help Keating, who heads American Continental, try to sell his thrift before the government seized it in April. The efforts were made despite earlier warnings that the Irvine, Calif.-based Lincoln was the target of a criminal probe by the Justice Department.

Field labeled the affair "excruciatingly damning" for the 75-year-old Cranston.

"It looks very, very black for him," he said.

Cranston, who has been a senator for 20 years, narrowly won re-election in 1986 but does not face re-election until 1992.

"Without Keating and the Lincoln Savings affair, it was going to be a rugged battle for Cranston because of his age and incumbency," Field said.

"Even though he has granted some interviews ... it is the kind of thing that is going to be very hard to extricate from since he faces a series of lawsuits, and investigations in California and Washington."

Riegle, 51, powerful Senate Banking Committee chairman, has employed a hybrid strategy of saying nothing to the national media except to shift the blame to DeConcini and McCain.

Riegle, first elected to Congress in 1966, has been so tight-lipped that he left out vital details in his official response to the Senate Ethics Committee, which is looking into the senators' conduct in relation to Keating.

Despite his efforts, Riegle's more-extensive role has emerged.

E. Spencer Abraham, chairman of the Michigan Republican State Committee, said that Riegle has been "studiously low-profiled" and predicted that his lack of candor will hurt him.

But Julie Weeks, vice president of political research at Detroit-based Market Opinion Research, a national GOP polling firm, said Riegle "hasn't been dinged with it very hard."

Time is on their side

Weeks said the political impact of the affair is lessened because none of the Keating Five faces re-election in 1990.

"If anyone were up in '90, they would be sweating bullets at this stage," Weeks said.

Glenn, 68, a 15-year senator who, in 1962, was the first American astronaut to orbit the Earth, has adopted the McCain "American Hero" approach: "My honor is vital, and I would never betray the trust voters have placed in me."

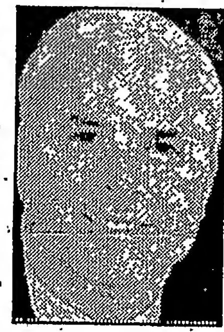
Jim Ruvolo, chairman of the Ohio Democratic Party, said Glenn waited to comment until he had gathered the facts. It was not until late November that he met with Ohio reporters to explain his role.

Ruvolo said the main goal of any politician caught up in a scandal such as the Keating affair is to get the issue behind him as quickly as possible in an effort to stem media coverage.

"The thing you have to avoid at all costs is Chinese water torture: drip, drip and drip," Ruvolo said.

'THE KEATING FIVE'

Sen. Dennis DeConcini, D-Ariz. /
Next election: 1994
Conducted both April 1987 meetings with senators and regulators in his office. Asked regulators to grant "forbearance" to Lincoln. Accepted, and later returned, $48,000 in campaign money. Continued trying to help Keating until April 1989. Two campaign aides received millions in loans from Lincoln.



Sen. John McCain, R-Ariz. /
Next election: 1992
Attended both April 1987 meetings. Received $112,000 in campaign money. Onetime friend of Keating. Took trips to Bahamas with Keating. Wife and father-in-law invested in Keating shopping center in Phoenix. That $359,000 investment could be threatened by government's $1.1 billion lawsuit against Keating.

Sen. Alan Cranston, D-Calif. /
Next election: 1992
Attended first April 1987 meeting but only made brief appearance at second. Accepted $39,000 in direct contributions, plus $850,000 for affiliated voter-registration groups. Continued trying to help Keating until April.

Sen. Donald Riegle, D-Mich. /
Next election: 1994
Met with officials from Keating's American Continental Corp. in February 1987, then met with nation's top thrift regulator, Edwin Gray, to suggest meeting with other senators. Attended only second April 1987 meeting. Toured American Continental properties in Arizona. Received $66,000 but returned it. Blames DeConcini and McCain for meetings.

Sen. John Glenn, D-Ohio /
Next election: 1992
Attended both April 1987 meetings. Told regulators to charge Lincoln "or get off their backs." Accepted $34,000 in direct contributions, and $200,000 for political-action committees.

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Father and son — and FBI

Some of our readers may have been confused when Sen. Alan Cranston charged on Wednesday that FBI officials were attempting to smear his son, Kim. After all, it certainly looked as if an FBI investigation into voter registration groups, including one run by Kim Cranston, was really aimed at the senior Cranston, who had solicited $850,000 for the groups from Charles Keating, owner of the failed Lincoln Savings & Loan.

But then, this is the same California senator who contends that he helped Keating, an Arizona resident, because that big-time contributor was one of his constituents. Absentee voting hasn't gone that far, at least yet.

We can't help detecting a certain amount of posturing in Cranston's outrage. After all, even if voters don't find him credible when he defends himself, they might lend him some sympathy when it comes to the defense of someone else, especially a son.

But Kim Cranston, currently an aide to Lt. Gov. Leo McCarthy, is not exactly an innocent himself. He was enough of a political animal to organize the Center for Participation in Democracy, for which his dad solicited $400,000 from Keating in 1988. That organization now is suspected of refusing to enroll non-Democrats in its voter registration drives, thus violating the rules of its tax-exempt status. If the younger Cranston gets in trouble over this, it won't be because he was just trying to help his fellow man. It will be because he was working for the Democratic Party and, of course, dear old Dad.

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(Mount Clipping in Space Below)

FEC probing Keating political contributions

By LARRY MARGASAK
Associated Press

WASHINGTON — The Federal Election Commission said Thursday it is investigating political contributions by Charles H. Keating Jr., the principal figure in the nation's largest savings and loan failure, who arranged for $1.3 million in donations to go to the campaigns and causes of five senators.

The investigation initially is focusing on contributions by Keating, his family members and corporate associates to Sen. John McCain, R-Ariz., who requested the probe, the FEC said.

But the investigation could spread to four Democratic senators who — along with McCain — intervened with banking regulators on Keating's behalf if the FEC feels that "there are other problems or other violations under the Federal Election Campaign Act," commission spokesman Scott Moxley said.

The meetings with regulators began in 1987 when Keating's Lincoln Savings and Loan was collapsing.

The Senate ethics committee currently is conducting a fact-finding inquiry into the case, which has enormous political consequences for McCain, a rising GOP star, and for the Democrats: Majority Whip Alan Cranston of California, Banking Committee Chairman Donald W. Riegle Jr. of Michigan, Governmental Affairs Committee Chairman John Glenn of Ohio and Dennis DeConcini of Arizona. All deny wrongdoing.

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(Mount Clipping in Space Below)

Lincoln's lending unsound, its lawyers warned firm in '86

By Jerry Kammer
The Arizona Republic

Attorneys for Lincoln Savings and Loan had serious concerns as early as 1986 about the way the thrift was lending its money and "found that it ... engaged in unsafe and unsound practices," according to a memorandum filed late Wednesday in U.S. Bankruptcy Court in Phoenix.

Loan analyses prepared by Lincoln's attorneys "document a consistent pattern of unsafe and unsound commercial lending" at the thrift, according to the memo, filed by attorneys representing federal regulators.

The memo is likely to become a key exhibit in a separate hearing that begins today in U.S. District Court in Washington, D.C. In the hearing, Lincoln's parent company, American Continental Corp., is challenging the government's seizure of the thrift.

American Continental is arguing before U.S. District Judge Stanley Sporkin that the federal takeover in April was "arbitrary, capricious and, therefore, unlawful."

Thrift regulators are expected to point to the warnings from Lincoln's New York law firm, Kaye,

— See LINCOLN, page A10

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FBI — PHOENIX

Lincoln lending unsound, firm was told in '86

— LINCOLN, *from page A1*

Scholer, Fierman, Hays & Handler, to support the government's contention that the thrift was being operated improperly.

The regulators' memorandum uses the law firm's analyses of Lincoln loans to support their argument to U.S. District Judge Richard Bilby that American Continental is dissipating its cash in court battles designed to protect executives of American Continental rather than its creditors.

American Continental filed April 13 for protection from creditors under Chapter 11 of the federal bankruptcy code. Regulators seized Lincoln the next day.

The federal Resolution Trust Corp., which operates Lincoln, is American Continental's principal creditor. Bankruptcy Court proceedings are intended to protect creditors.

The memo argues that American Continental's challenge of the federal takeover is "frivolous" because the company's "litigation posture is contradicted" by its attorneys.

The memo contends that documents prepared by the New York firm show "there can be no doubt" that the firm warned Lincoln's management about its loan underwriting.

Federal regulations require thrifts to conduct careful underwriting, or ensuring that a borrower is a good credit risk.

Attorneys for the Resolution Trust Corp. refused to comment Wednesday. But their memorandum said Lincoln's New York law firm doubted the safety and soundness of:

- A $30 million unsecured loan to Tucson-based R.A. Homes.
- The refinancing of about $75 million in loans to Mesa developer Conley Wolfswinkel.
- A $50 million loan made to an unidentified borrower who, according to the firm, had a "ridiculous" financial statement showing $110 in assets.

In a $1.1 billion civil racketeering suit filed in September against Keating and several associates, regulators called the R.A. Homes and Wolfswinkel loans "sham transactions" that were part of a pattern of fraud at Lincoln.

The Arizona Republic on Sept. 14 described $50 million in loans from Lincoln to R.A. Homes, whose vice president is Ron Ober, who ran the 1988 re-election campaign of Sen. Dennis DeConcini, D-Ariz.

DeConcini has come under fire for intervening with federal regulators in behalf of Lincoln in April 1987, seven weeks before R.A. Homes received the $30 million loan from Lincoln.

Another Keating taking a beating

By Chris Knap
Orange County Register

ENCINO, Calif. — When John J. Keating and his partners formed a bank here seven years ago, they picked a name that sounded honest and substantial:

Lincoln.

That was before Irvine, Calif.-based Lincoln Savings and Loan Association was purchased by Phoenix entrepreneur Charles H Keating Jr. and was forced into federal receivership.

"Obviously, it's not a very good name anymore," John J. Keating said this week.

His bank is considering changing its name.

John Keating is no relation to Charles Keating, nor is Encino-based Lincoln National Bank affiliated with Lincoln Savings and Loan.

But try explaining that to consumers shopping for a bank.

See ANOTHER, page A10

Another Keating, another Lincoln

ANOTHER, *from page A1*

"People don't read," John Keating said. "They glance at the headlines, and they don't know, and they say, 'It must be the same.'

"We've had a nightmare with this damn thing."

John Keating had to run a meeting of his board of directors on the day a local newspaper carried the headline, "Keating and cronies to be investigated by the FBI."

Another time, his daughter came home from school to inform him that "so-and-so's grandfather is suing you," he said.

"I told her, 'Honey, no one is suing me.' "

The lawsuit is against Charles Keating and Lincoln Savings and Loan, filed on behalf of the more than 23,000 people who purchased now-worthless junk bonds from the failed thrift.

"For a while, I figured it's better to do nothing," John Keating said. "I thought they would close it (Lincoln Savings), and that would be that. I knew I had a big problem when I read that five (U.S.) senators were involved. Then I knew people would be making political hay out of it all next year.

"Now we are seriously considering changing the name of the bank."

John Keating believes that Lincoln National Bank lost a deal Monday because the borrowers thought the institution was bankrupt and switched to Bank of America.

"We don't know how many people are frightened off that we never do get to see," Keating said.

He said that the firm earned $4.4 million in the first nine months of the year but that its stock price has declined several points.

"I wouldn't be surprised at that," said Jerry Findley of Brea, Calif., author of *The Findley Reports*, a trade publication that rates bank stock.

Findley described Lincoln National as "an excellent institution" but said the Lincoln Savings collapse has been giving John Keating "fits."

John said he went to Detroit last week only to run into headlines about a third Keating, Detroit Newspaper Agency executive William Keating, brother of Charles and co-defendant with him in a civil suit brought by federal regulators.

"It's following me from town to town," John Keating lamented.

The Lincoln National Bank board of directors is trying to decide what the institution's new name should be.

John Keating joked that he plans to change his name, too.

He's chosen Fielding Mellish, the hapless dictator in the Woody Allen film *Bananas*.

"I'll just use something bizarre because this whole thing is bizarre," he said. "If you can't laugh at it, you can't do anything."

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Riches to ruin: The meteoric life of Charles Keating

'He took charge of everything'

As Charles H Keating Jr.'s financial empire collapses, thousands of investors have lost their life savings, many have lost their jobs, the Arizona economy has suffered, and dozens of politicians have become entangled in "Charlie's Web." Who is Charles Keating?

Story by Carol Sowers, Andy Hall, Jerry Kammer and Lisa Morrell with research assistance from John Doherty.

The window shattered as a squarish object was hurled from the second-floor office at the posh Phoenix headquarters of Charles H. Keating Jr.'s American Continental Corp.

It was May 20, 1988. Decorum — and a computer — had just gone out the window.

A victory celebration had begun.

There was Keating, a trim, 6-foot-5 former champion swimmer, striking a *Superman* pose, unbuttoning his shirt in front of his employees to expose a T-shirt with a hand-drawn skull and crossbones over the letters "FHLBB" — Federal Home Loan Bank Board.

A secretary climbed atop a desk to photograph the revelers. Robert Kielty, an American Continental executive, joined her on the desk — close enough for Keating to lash their legs together with a roll of transparent tape.

Employees tossed beer bottles over expensive, carved wood desks and knocked over potted plants. Kielty grabbed a bottle of champagne and poured it down the front of another secretary's blouse.

"Get this champagne colder!" Keating yelled.

Some workers were amazed, watching the antics of their normally button-down boss, a public moralist who first gained national prominence as an anti-pornography crusader.

But Keating was ~~celebrating.~~ He

— See **A CLOSER LOOK**, *page A14*

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FBI — PHOENIX

A closer look at the faces of Keating

— A CLOSER LOOK, *from page A1*

had just won a two-year battle with federal thrift regulators who had contemplated seizing Lincoln Savings and Loan, the centerpiece of his $6 billion financial empire.

He had only won time, though.

On April 14, 1989, less than a year after the victory celebration, the regulators seized Lincoln, contending that the thrift was financially "unsafe and unsound."

Lincoln's collapse is projected to cost taxpayers up to $2.5 billion, which would make it the costliest of the nation's nearly 300 thrift failures.

As the "why" questions are being asked, at least three portraits of Keating have emerged:

- An aggressive, visionary entrepreneur and tough competitor who would have succeeded if not for incompetent and vindictive federal regulators.
- An insatiable gambler who, because of S&L deregulation, was able to play recklessly with other people's money and did so extravagantly.
- A con artist who deliberately set out to make himself wealthy by looting his savings and loan and defrauding investors.

Criminal probe under way

Rep. Jim Leach, R-Iowa, during a House Banking Committee hearing, called Keating "a financiopath of obscene proportions, the Reverend Jim Bakker of American commerce. ..."

Keating has not been charged with any crimes, but federal criminal investigations are under way.

He and 10 associates, including five relatives, are named in a $1.1 billion racketeering lawsuit, the largest government bank-fraud civil suit in U.S. history.

"You know we're just ruined, our reputation, our image, our economics," a shaken Keating told *The Arizona Republic* in July in one of his last interviews with the press. "We're ruined people. We've been destroyed."

Charles Humphrey Keating Jr. was born on Dec. 4, 1923, the son of a Cincinnati dairy executive.

When Charlie was young, his father was stricken with Parkinson's disease, a degenerative disease.

Charlie watched as his mother, Adelle, turned his father in bed so the bedsores would heal.

His father's illness made Keating "appreciate life a lot more than anybody I've ever met," observed his only son, Charles Keating III.

"My dad loves to have a good time," Charles said. "He'll get totally crazy, and people will think he's being obnoxious, but he's just having fun."

There were unmistakable clues as Charles Keating Jr. grew up that he would be hard to ignore.

"I think he was always a leader, very aggressive," said Ted Thoma of Cincinnati, who has known Keating for 50 years and attended St. Xavier High School and the University of Cincinnati with Keating, where he became an All-American swimmer in 1946.

Keating organized his friends "into teams of every kind. He just took charge of everything," Thoma said.

"He was a one-man gang. We were followers."

Keating joined the Navy at 17 and learned to fly. He never saw combat but survived a crash during training near the end of World War II.

He later recounted that, as he was about to land his plane on a southern Florida runway, he was thinking about a date with a pretty young woman and forgot to lower his landing gear. He jumped out unhurt as the plane bounced down the airstrip and burst into flames.

When he returned to Cincinnati after the war, Keating persuaded University of Cincinnati officials to allow him into law school even though he had finished only six months of undergraduate work.

"I was somewhat of an athlete, and the schools were all empty, and actually I had a lot of courses in the Navy that were highly acceptable," Keating told *The Republic*. "They just let me in."

In 1949, he married athletic, outgoing Mary Elaine Fette. They had six children, five girls and a boy.

In law school, Keating met John Meuthing, and in 1953 they formed a law firm. That move propelled Keating into the orbit of financier Carl

Lindner, who hired the firm to represent his American Financial Corp., now a multibillion-dollar holding company. In 1972, Keating became an American Financial executive vice president.

One of American Financial's first big acquisitions was Provident Bank in a hostile takeover that Keating finessed by spending months going door-to-door persuading stockholders to sell their stock.

Helped brother win post

He also jumped into politics in Cincinnati, helping his younger brother, Bill, win a City Council post and then two terms in Congress from 1970 through 1974.

Keating built a reputation in Cincinnati as a wily financier who stoked a blazing hatred against pornography. At the urging of a priest during a Catholic retreat, Keating gathered friends together in 1956 and established Citizens for Decent Literature.

He broke new ground in the prosecution of pornographers, participating in raids and for the first time using expert witnesses in trials to testify about the harmful effects of pornography, which he said was "engulfing this nation in a tidal wave of filth and turning her along the path of moral corruption and decay."

In 1973, celebrating an anti-pornography ruling by the U.S. Supreme Court, Keating thundered, "The decent people of America, backed by the United States Supreme Court, are going to wage a holy, yes, a holy war, against the merchants of obscenity. From this day forward I will not rest, and no one connected with CDL (Citizens for Decent Literature) will rest, until every pornographer in America is out of business, in jail, or both."

Keating's son said his father is convinced that, in the mid-70s, the publisher of a pornographic magazine urged that one of Keating's relatives be sexually assaulted. The assault occurred, and the resulting trauma, his son said, convinced Keating that his public activism bore a private price.

Citizens for Decent Literature changed its name in 1973 to Citizens for Decency Through Law. Keating took the organization with him in 1976 when he was moved to Phoenix to revive American Financial's ailing home-building subsidiary, Continental Homes.

Keating said he looked upon Arizona as a place to build "sort of a new life."

He bought Continental Homes from American Financial in 1978 and formed American Continental Corp., which prospered under his direction.

But an old mistake came back to haunt him. In 1979, at the end of a lengthy investigation, the U.S. Securities and Exchange Commission accused Keating and Lindner of fraudulently diverting American Financial assets through $14 million in improper loans to associates.

The two signed a consent decree in which they admitted no guilt and Lindner agreed to pay his own corporation $1.4 million. Keating would regret signing the decree. He claimed that in 1981, President Reagan offered to appoint him ambassador to the Bahamas, but that controversy about the consent decree caused the offer to be withdrawn.

Continental Homes became one of the leading home builders in the state. But Keating's heart wasn't in it.

His associates said he longed for the challenge, exhilaration and risk of the stock market, land development, junk bonds and leveraged buy-outs. The 1982 deregulation of the savings and loan industry, which allowed thrifts to leave their traditional home-mortgage market and enter into the bigger world of high-stakes finance, gave him his chance.

Lincoln purchased in 1984

Keating made his move in 1984. With $51 million raised from a junk-bond issue by Michael Milken of Drexel Burnham Lambert, he bought Irvine, Calif.-based Lincoln Savings and Loan. The next year, he sold Continental Homes so he could concentrate on Lincoln.

"What attracted me was never the money or the reputation of American Continental; it was Charles Keating, the man," said Patricia Johnson, who was recruited by Keating at a party to be the firm's public-relations director.

Soon after joining the company, Johnson got a taste of the money.

She had damaged a pair of shoes while gathering information for reporters after a fire destroyed six condominiums at The Phoenician Resort in July 1988.

The next morning, Johnson recalled, Keating insisted on replacing her shoes.

"Would $5,000 be enough?" Keating asked.

She received the check after Keating explained that some employees received clothing allowances.

Visitors to the swank offices of American Continental Corp., 2735 E. Camelback Road, where banks of computers monitored financial markets worldwide, would comment about the appearance of the staff.

"The employees all had to have a certain, wholesome look," said a former employee. "The Keating look."

To reward the talent and guarantee the look, Keating on at least one occasion flew some female employees in a corporate jet to Beverly Hills, Calif., gave them $1,000 each and told them to go shopping on Rodeo Drive, said a former associate who was on such a trip.

Some male employees were rewarded with fishing trips to King Salmon, Alaska, said a former employee who displays in his office pictures of fish he said he caught there.

Keating demanded loyalty, absolute and unquestioning. Those who showed independence were often fired, usually on a Friday afternoon.

In fact, firing people became a rite of passage for promising American Continental executives.

"In order to bring someone, especially a woman, out of the minor leagues, when they have just been promoted, we let them fire somebody," American Continental executive Judy Wischer told a women's seminar last year.

Employees rewarded

Those who performed as expected were paid handsomely.

"Charlie put his people in golden handcuffs," said a former employee.

Keating paid himself an estimated $3 million a year in salary, stocks and bonuses.

Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times. Charles Keating III, who at 31 earned $800,000 a year as an American Continental vice president, acknowledged that his father stitched his business and family into a single, tight fabric.

In vigorous bursts of loyalty, his family and many of his employees share his victories and loathe his enemies.

In a March memo to employees, son-in-law Robert Hubbard, an American Continental vice president, warned them to beware of reporters' "insane quest to destroy ACC or CHK" and said an "out-of-control newspaper can be cruel in its disregard of a person's rights."

— See CHARLES, page A15

Charles Keating Jr.: From riches to ruin

CHARLES, from page A14

Driven, determined, dogged, Keating was contemptuous of federal regulators. He scorned them as rigid, unimaginative bureaucrats incapable of understanding his entrepreneurial vision. He thought they were out to destroy him because he refused to bow to their rules.

Keating sought help in his battles against bureaucracy by lavishing campaign contributions on local, statewide and national incumbents and hopefuls.

"He never lost a zoning case," said former Phoenix City Councilman Ed Korrick, who said he was not among the politicians who received Keating money.

The most controversial flexing of Keating's political muscle came in April 1987, when he called on five U.S. senators to complain that thrift regulators were being unfair. The senators, who Keating had given a total of $1.4 million in campaign contributions, met twice with regulators. Those meetings have since been challenged as an abuse of power, although the senators deny any improprieties.

Threatened futures

The episode has threatened the political futures of the "Keating Five" — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — and is the subject of inquiries by the Senate Ethics Committee and the FBI.

Keating sees nothing wrong with paying for politicians' influence, saying in April that, "We have the right to seek their help when we need it and demand it when justified."

Keating bluntly explained the purpose of his huge political contributions.

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters. "I want to say in the most forceful way I can: I certainly hope so."

But the government's racketeering suit, filed in September, contends that the money was never Keating's to give away and accuses him of looting Lincoln's federally insured deposits to fulfill his own political and social agendas.

From his huge donations to Mother Teresa, a nun who helps the destitute and dying, to the well-cut suits and $75 Hermes ties, Keating's searing desire has always been to look good.

Keating has carefully constructed an image as a doer of good deeds, philanthropist, defender of American virtue and devout Catholic.

At least twice, Keating has taken his family to the village of Medjugorje, Yugoslavia, where some Catholics claim the Virgin Mary appears to them.

And last year he flew a priest from Medjugorje to Phoenix, where more than 500 people joined Keating in reciting the rosary in the Crescent Hotel ballroom.

Friends and associates say he wants desperately to be liked. But he has ignited furious hatreds, especially among the 23,000 buyers of American Continental bonds, many of whom claim they were tricked into believing that the $230 million they collectively lost was federally insured.

"You don't go around taking people," said an angry 74-year-old man who bought $24,000 of Keating's uninsured bonds.

"There's been people shot for less."

Keating says he intends to repay the bondholders within 13 years.

Among Keating's defenders is Conley Wolfswinkel, a Mesa developer who received more than $100 million in loans from Lincoln Savings.

Wolfswinkel said he has "learned to really respect and admire" Keating and has enjoyed Keating's zest for making deals. He denounces regulators' claim in their racketeering suit that one huge Keating deal with Wolfswinkel was a "sham" sale that allowed Keating to record millions of dollars in phony profits.

Possessions sold

"I think that as the whole story unfolds and as testimony comes out on these deals, you're going to see this whole thing turn," he said.

He accused the regulators of making Keating a "scapegoat" for the thrift industry's problems.

Pressed to raise cash, Keating has sold two vacation houses on Cat Cay in the Bahamas and his boat, according to Keating's son. The private jets and helicopter are also sold, but Keating has hung onto his Paradise Valley home.

Until a takeover by federal thrift regulators in November, Keating also held onto his two hotels, the Crescent, off the Black Canyon Freeway at Dunlap Avenue, and its regal younger sister, The Phoenician Resort, embraced by Camelback Mountain. They are glittering monuments to Keating's

love of luxury and extravagance.

"Charlie only knows one class, and that's first class," said a former employee who recalled that when the hotels were under construction, Keating repeatedly and impetuously ordered costly changes.

Keating brought the same grandiose style to his savings and loan, taking risks with loans and investments that alarmed federal regulators. Ultimately, his high-flying brought him down, overwhelming Lincoln in a furious whirlwind of bad loans and failed investments.

Last July, lunching on halibut at The Phoenician's restaurant, Mary Elaine's, named after his wife, Keating said he regretted the purchase of Lincoln "daily, moment by moment."

"It's ruined my life."

CHARLES H KEATING JR.'S HISTORY

1923: Born in Cincinnati, the first of two sons of a dairy executive.

1941: Joins the Navy and is trained as a pilot.

1948: Earns law degree at University of Cincinnati.

1949: Marries Mary Elaine Fette. They raise six children.

1953: Becomes a senior partner in a law firm that represents financier Karl Lindner's American Financial Corp.

1956: Forms anti-pornography organization, Citizens for Decent Literature, which is later renamed Citizens for Decency Through Law.

1969: Campaigns for younger brother, Bill, who wins his first of two terms in the U.S. House of Representatives.

1972: Becomes executive vice president and director of American Financial.

1976: Moves to Phoenix from Cincinnati to take over Continental Homes Inc. of Arizona for its parent company, American Financial Corp. He acquires the firm and creates American Continental Corp., becoming its chairman and president.

1979: Signs a consent decree with the U.S. Securities and Exchange Commission, which had alleged that during his tenure with American Financial he helped make $14 million in improper loans to insiders of a Cincinnati bank controlled by American Financial.

1984: Buys Lincoln Savings and Loan Association of Irvine, Calif., with $51 million raised in a junk-bond issue through Drexel Burnham Lambert's Michael Milken. Lincoln immediately turns away from home-mortgage lending and uses federally insured deposits for such high-risk investments as undeveloped land and junk bonds.

1985: Sells Continental Homes. Concentrating on Lincoln Savings, Keating battles regulators who want to limit its high-risk investing.

1986: Accuses thrift regulators of harassment as they begin a lengthy examination of Lincoln's books that will lead to allegations of fraudulent land transactions and mismanagement.

April 2, 1987: At Keating's request, Senators Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., join Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet in DeConcini's office with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's S&L.

April 9, 1987: The four senators, along with Sen. Donald Riegle, D-Mich., meet again in DeConcini's office with officials from the bank board's San Francisco office.

May 1, 1987: The San Francisco-based regulators of the bank board recommend that Lincoln, although solvent, be seized for operating in a financially unsafe and unsound manner and dissipating its assets. Two months later, M. Danny Wall succeeds Gray as bank-board director.

May 20, 1988: The bank board shifts responsibility for supervision of Keating's thrift from San Francisco to headquarters in Washington. In Phoenix, Keating leads employees in raucous celebration.

December 1988: A bank-board report says Lincoln does not have the capital required by regulations.

April 13, 1989: American Continental Corp. files for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

April 14, 1989: Bank board takes over Lincoln, claiming it is operating in an unsafe and unsound fashion. Losses are estimated to have increased by $1 billion in the two years since San Francisco recommended seizure.

Sept. 15, 1989: The Resolution Trust Corp., a new agency with jurisdiction over Lincoln and other insolvent thrifts, seeks $1.1 billion from Keating, his relatives and associates in a fraud and racketeering suit alleging that Keating diverted depositors' money for his own use.

Oct. 17, 1989: Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, launches the first of at least six hearings investigating Lincoln's collapse. Federal Deposit Insurance Corp. Chairman L. William Seidman estimates that taxpayers will have to spend $1.5 billion to $2 billion to cover Lincoln's federally insured losses.

Nov. 16, 1989: Federal regulators and FBI agents remove Keating and his associates from management of the Crescent and Phoenician hotels in Phoenix. The takeover is made possible when Keating's Kuwaiti partners, who own a 45 percent interest in the hotels, drop their support of Keating and allow federal officials to appoint new managers. A Lincoln subsidiary holds a 55 percent interest in both hotels, but management changes required the consent of holders of 75 percent of the stock.

Nov 17, 1989: Senate Ethics Committee hires Washington, D.C., attorney Robert S. Bennett to investigate whether the senators who met in 1987 with federal regulators were improperly influenced by Keating's contributions to their campaigns and/or related political organizations.

Nov. 21, 1989: Keating invokes his Fifth Amendment right against self-incrimination and refuses to testify before the House Banking Committee.

The Arizona Republic

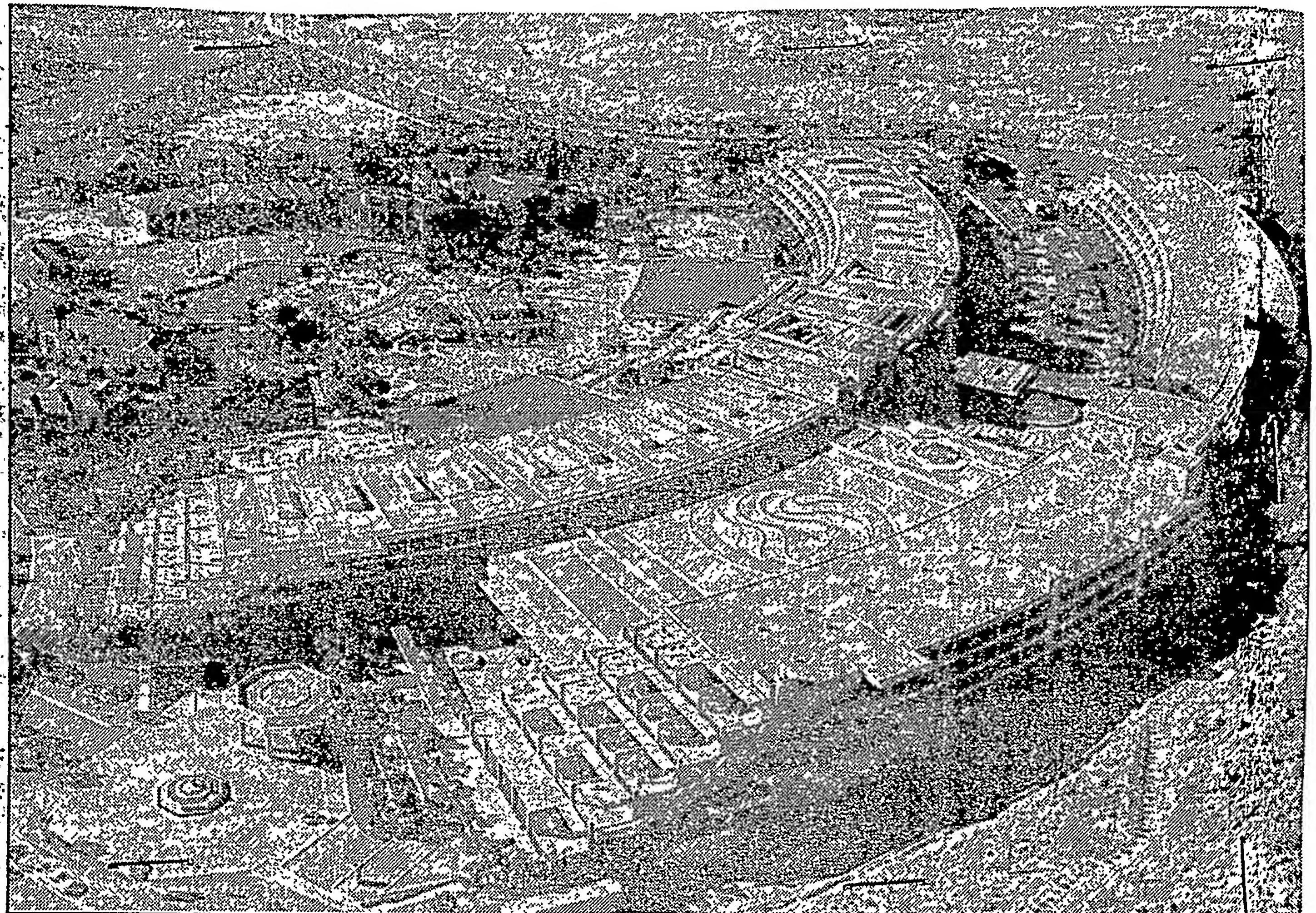
Keating, who has cultivated his image as a devout Catholic, has made huge donations to Mother Teresa, a nun who helps the destitute and dying.

Keating held his wife, Mary Elaine, close during a news conference earlier this year. The other people are not identified. Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times.

Michael Meister / The Arizona Republic

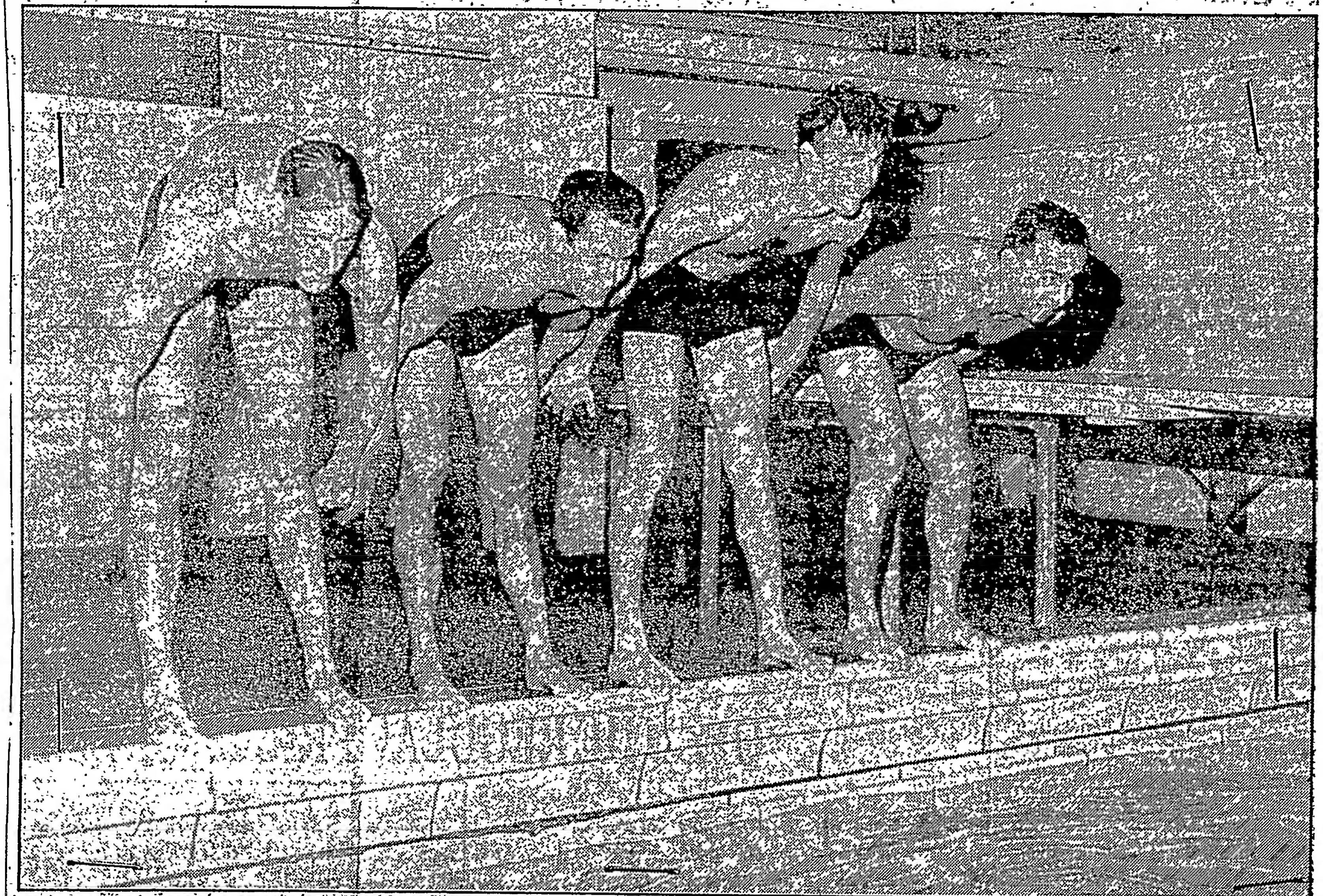
Friends and associates say Charles H. Keating Jr. wants desperately to be liked. However, the entrepreneur who formed American Continental Corp. has ignited furious hatreds.

The Phoenician Resort (pictured), embraced by Camelback Mountain, and the Crescent, off the Black Canyon Freeway at Dunlap Avenue, are glittering monuments to Keating's love of luxury and extravagance. "Charlie only knows one class, and that's first class," says a former employee.



Tom Story/The Arizona Republic

CHARLES KEATING: FROM RICHES TO RUIN



Sports Information Office/University of Cincinnati

Charles H Keating Jr. (left) was a swimmer at the University of Cincinnati. A fellow student at the school says Keating "was always a leader, very aggressive."

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Congress to blame in Lincoln disaster

The hue and cry go up: Fire Danny Wall!

After all, was it not Wall who fiddled while Lincoln Savings & Loan Association burned?

And wasn't it Wall who sat on his hands while other savings and loans lost billions of dollars?

Well, the answer to both questions is yes and no.

Yes, Wall waited until two years after his appointment as chairman of the Federal Home Loan Bank Board to close down Lincoln. But no, he wasn't just twiddling his thumbs in the meantime.

Wall was waiting for his beleaguered team of regulators to complete one untainted review of the thrift to ensure that any actions against Charlie Keating's cash cow were unimpeachable.

Those same regulators were being inundated with thrifts falling out of the skies over Dallas and Houston.

And, yes, Wall's apparent sweetheart deals with several thrift buyers are questionable at best. But no, he was following the suggestions of his own regulator, the Congress, in most of his activities.

Still, go ahead and fire Wall. There are many who believe that the havoc of the savings and loan debacle cannot heal as long as Wall sits like salt in the wound.

But the fact remains, M. Danny Wall is not the villain in this case. For that matter, one may not exist.

Keating and others like him are not so villainous as we would paint them, though their actions are reprehensible. For equally at fault were those who either ignored warnings or refused to perform basic research before placing their money in the failing thrifts' accounts.

The closest there is to a villain is Congress itself, for knuckling under and giving thrifts the right to make real estate and securities investments without arranging sufficient regulation.

Yet let us pin our sins to Danny Wall and send him through the gate to oblivion, and be done with it.

The one fact remains that no matter whether Wall or Keating, or any of the five senators who participated in the meetings on Lincoln, finally are hanged, it will be the taxpayers who foot the bill for the funeral.

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(Mount Clipping in Space Below)

DeConcini and McCain recalls studied

By Don Harris
The Arizona Republic

Political activists Ed Buck and Jon Seidl met Wednesday to consider dropping a recall effort against Sen. Dennis DeConcini and launching simultaneous drives to recall DeConcini and Sen. John McCain early next year.

DeConcini, a Democrat, and McCain, a Republican, are the targets of a U.S. Senate Ethics Committee inquiry into their involvement with troubled financier Charles H. Keating Jr.

Buck, who engineered a recall drive of then-Gov. Evan Mecham, could not be reached for comment.

But Seidl, who is spearheading the drive against DeConcini, said that although no final agreement has been reached, it is likely he and Buck will join forces.

For now, Seidl said, Buck is seeking to avoid the need for recall drives by appealing to each senator to resign.

Before their meeting, Seidl said that a dual drive to recall both Arizona senators would have a better chance of success.

"Eight out of 10 people who wouldn't sign our (DeConcini) petition wanted to know why we didn't have a McCain petition," Seidl said.

"They said they would have signed both, but not just one. Almost all of them mentioned the Keating thing."

Spokesmen for both McCain and DeConcini have downplayed the significance of a joint recall effort, maintaining that the senators have done nothing wrong.

DeConcini, McCain and three other U.S. senators are

—See DeConcini, page B15

DeConcini, McCain recalls studied

—DeConcini, from page B1

accused of interceding with federal regulators in connection with Keating's Lincoln Savings and Loan Association, which later was taken over by the federal government. The cost to taxpayers to cover insured deposits has been estimated at more than $2 billion.

Meanwhile, Seidl said he will not call off his current DeConcini recall drive until mid-December, when it will become clear whether he has a chance to collect enough signatures.

Seidl has until Jan. 6 to obtain 291,135 valid signatures of registered voters. He estimates he has collected slightly fewer than 200,000 signatures.

Still to be decided by Buck and Seidl is what their roles would be.

Seidl said he anticipates a lower profile and dropping mention of DeConcini's sponsorship of a bill that would ban the sale of nine automatic weapons.

"People have branded me as a gun nut, and that has hurt the campaign," said Seidl, who manufactures magazines for military and police rifles.

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(Mount Clipping in Space Below)

Root causes of the Keating affair

Editor:

For months the "Keating Five" affair has been prominent in the news media across the land with appropriate amounts of disdain for Charles Keating and ridicule for the five senators. Nowhere near enough attention has been given to the root causes.

• The five merely reflect their constituency, which is infected with the twin ailments of something for nothing (a derivative of the world's fundamental evil of envy) and dollar ethics, in which the most outlandish behavior and appearance are excused by and for sufficient sums of money. No one loves a piker — hence Sen. Alan Cranston is almost immune, while Dennis DeConcini (he doesn't have any of the money!) gets it from every corner.

• Our federal government has gotten itself, via efforts of a long line of other "Fivers," into the position of being able to grant immense favors, but of having to absorb the cost of mistakes made by foolhardy, if not criminal, private citizens. How can anyone doubt that those Federal Deposit Insurance Corp. and Federal Savings and Loan Insurance Corp. guarantees would not one day require performance? The biggest is yet to come, because the entire concept of government intervention into the market economy has been as perverted as it was ill-conceived.

Since Mr. Keating did what most of us aspire to do, we are not nearly as mad at him for wrongdoing as we are envious that he made it to the federal trough in a big way while we haven't. (We will keep trying, although most of us will only succeed modestly via Social Security, if we live long enough.)

Sens. John McCain and DeConcini will be re-elected because both parties will call a truce on this issue to assure Arizona's seniority (the ability to extract benefits from other states and grant favors within ours) in the U.S. Senate is not lost, and because the memory of the electorate is reliably blank by the time elections roll around.

I take no comfort in any of this, but only hope that the nation's citizenry will soon realize the root causes and get fed up enough to vote for people who run on platforms to do less for (not more to) their constituency.

R.D. PRICE
Phoenix

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(Mount Clipping in Space Below)

Keating draws ABC, CBS news shows to Phoenix

Tired of seeing Arizona pilloried in the national media for its bizarre politics and sagging economy?

Brace yourself.

Last week, ABC's Sam Donaldson was in town preparing for a *Primetime Live* segment about Arizona's own Charlie Keating. And this week, a crew from CBS' *60 Minutes* is due in to research a similar project.

Conveniently, the *60 Minutes* crew will stay at the Phoenician Resort, which the federal government seized from Keating last month.

One person who *won't* be appearing on camera is Bruce Babbitt. The former governor blasted Keating in October and criticized Sens. Dennis DeConcini and John McCain for interceding with federal regulators in Keating's behalf after receiving humongous contributions.

"I'm not eager to be a part of a crusade against the Arizona community," Babbitt said last week when asked why he turned down a *60 Minutes* interview.

"Before this is all over, there's going to be a pile of mud over this state that I don't want to be a part of throwing."

Is GOP infighting over?

State Senate President Bob Usdane says the obstructionist "Rule of Nine" is dead, and Gov. Rose Mofford says she believes him. Now we can expect the GOP caucus to work together, right?

Wrong.

In fact, the divisiveness of the Senate Republican caucus appears to be spreading like cancer to the House. A band of right-wingers from both chambers has contracted with conservative consultant Bob Robb for a statewide poll.

"The purpose of the poll is to get a sense of how people feel about taxes and whether they want them raised," said Rep. Karen Mills, R-Glendale.

Mills and Rep. Jim Skelly, R-Scottsdale, last week sent a memo soliciting funds for the January survey to 19 of their House and Senate colleagues.

It's ironic that this group of fiscal conservatives needs to spend $4,250 to determine whether people want their taxes raised. The key, of course, is whether respondents simply will be asked about taxes or whether they'll be asked which services should be cut to erase an expected $400 million state budget deficit.

Others contend the poll will further splinter the GOP. They worry that it is designed more to provide anti-taxers with ammunition than to generate new info about voter priorities.

Pro-choicers surface

Pro-choice Republicans used to be pretty hard to find in Arizona.

Oh, sure, they were always around. But they kept a pretty low profile until the Supreme Court ruled this summer that states could begin restricting abortion rights.

Times are changing.

Remember Mary Crisp, the former GOP national committeewoman from Arizona who resigned in 1980 when the party refused to endorse the Equal Rights Amendment? She has recruited Phoenix activist Janie Sperry to organize Arizona Republicans for Choice, part of a national movement dedicated to changing the party's anti-abortion stance and electing pro-choice Republicans.

Sperry says she already has collected the names of about 4,000 likely members and is forwarding them to the group's Washington, D.C., headquarters.

Look for a battle royal.

A Bill Davis nightmare

The Arizona Senate may have washed its hands of the fly-by-night Bill Davis, but Sen. Leo Corbet hasn't.

Corbet, a north Phoenix Republican, is scheduled to go to court Jan. 8 to contest a ruling requiring him to pay about $400,000 in lease costs associated with a now-defunct Mexican restaurant in Glendale that Corbet sold to Davis in 1985.

You remember Davis: The preacher-turned-politician who was accused in 1986 of bilking an elderly couple out of their life savings. Davis was rebuked by the Senate Ethics Committee and lost his seat in the 1986 GOP primary.

Davis, under investigation by the Alabama Security Commission over an unrelated fraud allegation, has disappeared. That's why the property owners are suing Corbet, who guaranteed the lease.

Corbet contends Davis agreed never to hold him responsible for the lease and related bills.

"Billy's already cost me $85,000 to $90,000," said Corbet, who is selling real estate in Bullhead City to make ends meet.

"I wish I'd never met the guy."

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FBI — PHOENIX

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(Mount Clipping in Space Below)

Financial victims of Keating empire

Creditors are left waiting in wings

By Lisa Morrell
The Arizona Republic

David York isn't interested in the national scandal surrounding the fallen empire of Arizona businessman Charles H. Keating Jr. and his Lincoln Savings and Loan.

All York wants is the $130,000 he claims he is owed for making the trellises and handrails for Keating's $260 million Phoenician Resort. The money could mean the difference between survival and extinction for York Metal Fabricators, his 25-year-

American Continental Corp.'s failure will touch the life of virtually every person in the United States. Most are affected slightly. Thousands of victims, though, are suffering from the loss of their savings, their jobs or reputation. These are some of their stories, by Lisa Morrell of *The Arizona Republic.*

old family business in Oklahoma City.

"We're struggling," York said. "I'm surprised we've hung on this long."

York said that once again, there will be no Christmas bonuses for his two dozen employees this year.

As a creditor, York became a victim when Lincoln's parent company, American Continental Corp., and 11 Lincoln subsidiaries filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code on April 13. That was one day before federal thrift regulators seized Lincoln and its $5 billion in assets.

York and other creditors now have to ~~wait for~~ the Bankruptcy Court to resolve the matter.

He and thousands of others have been victimized by the thrift's failure because of the loss of investments, jobs, equity or just professional reputation.

Citizens' confidence in government and certain elected officials has been shaken.

Arizona's economy has ~~been hurt~~ by the repercussions of American Continental's failure.

Every U.S. taxpayer is victimized, because it ultimately will cost each one about $20 to cover Lincoln's federally insured losses.

Some victims may recover some of their losses through lawsuits, but nearly every one of them will lose financially or psychologically.

TAXPAYERS

The nation's 100 million taxpayers make up the largest group of victims in the fall of Keating's empire.

Lincoln's loss, estimated at $2 billion, is potentially the largest single

— See CREDITORS, page A14

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Creditors reeling in the rubble of American Continental

— CREDITORS, *from page A1*

bailout in the nationwide S&L debacle.

The bailout is expected to cost $160 billion, more than the $140.6 billion spent by the United States to fight the Vietnam War.

"The S&L bailout, which was in many ways the biggest consumer rip-off in American history, was made necessary because of the activities of alleged swindlers like Mr. Keating," said Michael Waldman, director of Public Citizens Congress Watch of Washington, D.C., a consumer-advocacy organization founded by Ralph Nader.

Keating attorneys have refused to answer questions about the case.

BOND INVESTORS

Count investors as the hardest-hit individuals in the collapse, especially the 23,000 people who invested more than $230 million in American Continental's unsecured junk bonds. More than 540 of those investors are Arizona residents.

Bondholders claim they were duped into believing the now-worthless, high-risk bonds were safe investments. They are among the investors who say they were given a misleading financial picture of American Continental and are suing the company in California and Arizona.

The bondholders, as a group, have concluded that government officials were aware of American Continental's poor financial condition but failed to cease the bond sales. They want the government to compensate them for their losses as though the bonds were federally insured.

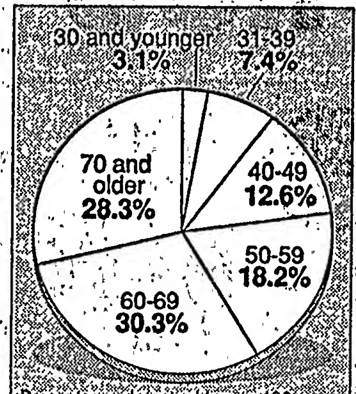
Leah Kane, an organizer of bondholders in Laguna Hills, Calif., said the stress of losing their life's savings has caused some older investors to suffer heart attacks, headaches and other illnesses.

STOCKHOLDERS

American Continental's 1,221 stockholders have seen the value of their shares fall to 5 cents from $7 in February.

AGES OF AMERICAN CONTINENTAL CORP. BONDHOLDERS

From 1,100 interviews with bondholders by investors' attorneys. On average, each bondholder invested $19,000.



Percentages do not add up to 100 because of rounding.

The Arizona Republic

Federal Securities and Exchange Commission filings last year showed that 15 top executives, including Keating and his family members, owned 13.9 million, or 87 percent, of the Phoenix company's 15.9 million common shares outstanding. Based on those numbers, that insider group saw its stock holdings drop to $695,000 from $97.3 million.

A stockbroker, who asked not to be identified, said he recommended American Continental to clients and invested heavily himself. He said he is taking heat now.

"Everything's been construed as if we were the villains instead of the victims," he said.

He said he never would have invested had he seen a true financial picture of Lincoln and American Continental. He blames American Continental and its accountants for duping investors.

CREDITORS

More than 25,000 businesses and individuals are owed more than $2.7 billion by American Continental and 11 Lincoln subsidiaries. For now, those creditors must wait while the Bankruptcy Court oversees the companies' reorganization.

Ten of the 11 Lincoln units now under government control can cover their debts, but it'll be a long time before creditors get any money.

American Continental creditors face an even bleaker outlook, because the company has $210 million in assets against debts of $388 million.

The owner of a small pool-supply store in Phoenix who is owed $14,000 by American Continental and who didn't want his name published said he has had to cut his monthly income in half since the company's bankruptcy filing.

BOND SALESPEOPLE

Even the American Continental and Lincoln Savings and Loan employees who sold the now-worthless American Continental bonds consider themselves victims.

Many believed so much in what they were selling that they invested or persuaded family members to invest. Forty current employees of Lincoln, which is based in Irvine, Calif., and their families invested a total of $1 million in their employer's bonds that they have now lost, according to a survey by Lincoln's current management.

OTHER EMPLOYEES

At least 250 of about 2,500 American Continental employees were laid off this year as the firm sought to cut expenses. Many are finding that their affiliation with Keating is hampering their job search.

After the former public-relations director of American Continental wasn't receiving even initial responses from at least five potential employers, she began calling them to ask why.

"They said they weren't interested in getting involved in the controversy (surrounding Keating)," said Patricia Johnson, a 12-year veteran of the public-relations business. Her job was eliminated in April.

Employees of Lincoln Savings said

Charles Krejcsi/The Arizona Republic

Gerald Murphy heads the firm that built The Phoenician. In 1988, Charles H Keating Jr. stopped paying the builder, saying subcontractors did shoddy work.

they suffered uncertainty and worry from the federal regulators' seizure of Lincoln's operations in Arizona and California, including Lincoln's offices in both states and the Phoenician Resort in Scottsdale.

Government managers fired some employees. Others have left or want to leave because they see no future with government-run Lincoln, one employee said.

BUSINESS ASSOCIATES

In October 1988, after the Phoenician Resort opened, Keating stopped paying the builder of his lavish resort, McCarthy Western Constructors Inc.

Keating said McCarthy's subcontractors did shoddy work and overcharged him.

McCarthy sued Keating's companies for $20 million.

Keating countersued, accusing the contractor of racketeering.

Gerald Murphy, president of McCarthy, maintains the subcontractors did top-notch work. About 50 of those subcontractors still are owed money.

Although most of his customers know McCarthy is a solid company, Murphy said, the dispute with Keating has hurt business.

Murphy said his firm was rejected for two projects totaling $50 million because of project managers' concerns about problems with the Phoenician Resort.

With the federal government now in control of the Phoenician Resort, Murphy hopes to negotiate an out-of-court settlement with the government.

A Japanese company in partnership with American Continental believes the company cheated it out of more than $10 million, according to Douglas Brown, a Los Angeles attorney representing Taiyo Real Estate Co. of Kyoto.

Since 1986, American Continental "took over money and then basically didn't do anything," Brown said.

Taiyo stands to lose money it gave Keating's companies for a 60 percent interest in The Crossings, a residential and commercial project in Mesa. Taiyo filed suit against American Continental and others in early 1989 in U.S. District Court in Los Angeles. The bankruptcy action has put the lawsuit and project on hold.

ARIZONA ECONOMY

American Continental's downfall ranks among the biggest single financial disasters in Arizona's history.

The avalanche of publicity nationwide about Keating's woes has furthered the image that Phoenix is in an economic downturn, said Elliott Pollack, chairman of Pollack/Ramras Cos. of Phoenix, a real-estate development and economic consultant.

Real-estate experts say added negative publicity could scare off investors and dampen business opportunities.

Other Arizona developers have been burned in the real-estate crash that followed the frenzy of land speculation in the mid-1980s, said Philip Dion, chairman of Del Webb Corp. of Phoenix, a retirement-community developer.

"Lincoln was certainly one of the major players that pushed prices way beyond economic reality," he said.

Lincoln's assets total $2 billion to $3 billion of the $13 billion that are under federal thrift managers' control in Arizona.

"What the Lincoln thing threatens to do is to intensify the downturn in real-estate values and prolong the turnaround," said Robert Eggert, chief economist of Eggert Economic Enterprises Inc. in Sedona.

CHARITIES

Keating, through American Continental, contributed heavily to charities. From 1984 to 1986, the company gave more than $6 million to charities in the Phoenix area and worldwide, including Mother Teresa's Missionaries of Charity.

American Continental's crash has changed all that.

— See KEATING, page A15

Keating leaves trail of victims

— KEATING, *from page A14*

Paul Gesicki, acting director of the St. Vincent de Paul Society in Phoenix, said American Continental has informed the society it is unable to contribute any longer.

The loss of the $100,000 the company promised for each year until 1993 "makes it more difficult to survive each month," he said.

POLITICAL SYSTEM

The influence-peddling scandal surrounding five U.S. senators who went to bat for Keating after they received hefty contributions has shaken people's faith in the integrity of the country's political system and discourages them from participating, said Waldman, of Public Citizens Congress Watch.

He said the case is a "microcosm" of the problem of politicians serving contributors at the expense of constituents.

The senators — Republican John McCain and Democrat Dennis DeConcini, both of Arizona, and Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — had two unusual meetings in April 1987 to question thrift regulators who were bearing down on Keating's questionable business practices. Their campaigns or related political organizations had taken in about $1.3 million from Keating, his family or associates.

"When large contributors can win the ear and support of members of Congress, that gravely damages the system's ability to represent all citizens," Waldman said.

The relationships between Keating and the senators highlight the need for campaign-finance reform, he said.

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One Keating may be dropped from suit

BY BERNIE SHELLUM
~~Free Press Business~~ Writer

William Keating is negotiating to have himself dropped from the federal government's lawsuit against his brother, Charles Keating Jr., and 34 others in exchange for his cooperation in investigations of Lincoln Savings & Loan Association, a source close to thrift regulators said Monday.

The source, who spoke on condition that he not be identified, cautioned that the deal is tentative and may not be wrapped up for two weeks.

William Keating

William Keating, chief executive officer of the Detroit Newspaper Agency, which runs the business affairs of the Free Press and Detroit News, did not return phone calls Monday.

The source said the government hopes to make a deal because it has little chance of winning a damage award against William Keating in its $1.1 billion civil suit, filed in federal court in Phoenix on Sept. 15.

The source said William Keating was a director of American Continental Corp., Lincoln's owner, for only five months and attended only two board meetings before resigning in August 1986.

The lawsuit, in which the government accuses William Keating of gross negligence and two other counts, says he served as an ACC director for 13 months, from Feb. 27, 1986, to March 25, 1987.

Keating was named chairman of the DNA, which runs the Detroit newspapers' joint operations, in April 1986.

In pressing the lawsuit, the Resolution Trust Corp., the federal agency that regulates the savings and loan industry, has argued that ACC's directors should be treated as if they also were directors of Lincoln.

With losses estimated as high as $2.5 billion, Lincoln ranks as the nation's biggest thrift failure and is now at the heart of a political controversy because of the intervention with regulators of five U.S. senators — including Michigan's Donald Riegle — who received hefty campaign contributions from Charles Keating and other ACC executives.

Chester Kamin, William Keating's attorney, told the Free Press two weeks ago that he would try to have his client dropped from the suit because of his short term as a director, but has yet to file a motion.

The exact terms of the deal Kamin is negotiating could not be determined Monday, and Kamin could not be reached for comment.

Charles Keating and other members of his family are defendants in several lawsuits, and the FBI, the Securities and Exchange Commission, and the U.S. Attorney in Los Angeles are investigating Lincoln.

In the Phoenix suit, the Resolution Thrift Corp. argues that Charles Keating masterminded a series of deals that enabled him and other ACC executives to loot the thrift of hundreds of millions of dollars before regulators seized it April 14.

If William Keating left ACC's board in August 1986, it means he will likely avoid legal entanglement in one of the alleged schemes — a $20 million loan in December 1986 by two Lincoln subsidiaries to owners of the Hotel Pontchartrain, which

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included Charles Keating ~~and other~~ ACC executives. Regulators denounce it as a clear-cut violation of conflict of interest.

But other dealings that are the focus of lawsuits or criminal investigations did take place during William Keating's tenure as an ACC director, including:

- Enactment by ACC of a "tax plan" on March 14, 1986, in which the government contends Charles Keating and his associates illegally forced Lincoln to pay $94.8 million to ACC as taxes due to the federal government. They are accused of diverting much of the money to themselves.
- At least $250 million in high-risk ACC bond sales through Lincoln's branch offices in southern California. William Keating's name appears as an ACC director on an April 17, 1986, prospectus that states the terms of the bonds. When Charles Keating placed ACC in Chapter 11 bankruptcy on April 13, the bonds lost their value, and holders are now suing on grounds of fraud.
- According to official reports by regulators, Lincoln also made dozens of loans from March-July 1986, without any financial analysis or credit reports on the borrowers, and in some case loaned money without appraisals or even completed loan applications.

During a four-year period that included William Keating's tenure as an ACC director, Charles Keating and other members of his family took $34 million out of the company in salaries and stock sales, according to regulators.

William Keating is not cited as a recipient of any money other than his pay as a director. In 1986, federal regulators found that William Keating was paid $10,000 in directors ~~fees from~~ ACC.

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Indexing:

One-sided reporting

I am appalled at the one-sided reporting of Free Press writer David Everett in his coverage of Sen. Donald Riegle's relationship with Lincoln Savings and Loan ("Riegle compares efforts for thrift, Detroit JOA; conduct defended in letter to the Free Press," Dec. 8). Contrary to the facts, Everett has made up his mind that Riegle is guilty of some wrongdoing and has decided to convict Riegle through his news stories.

In the Dec. 8 article about a letter that Riegle wrote the Free Press, Everett points out that Knight-Ridder did not contribute to Riegle's campaign and that the head of Lincoln did. What is not mentioned is that Riegle went out of his way to help a company that did not contribute to his campaign.

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Keating 'knew of no wrongdoing,' his lawyer says

By Gregory Gordon
News Washington Bureau

WASHINGTON — Detroit Newspaper Agency head William Keating has informed government lawyers that he knew of no wrongdoing while briefly serving as a director of the parent company of Lincoln Savings and Loan and did not attend a board meeting after May 1986, according to sources familiar with the matter.

William Keating's Chicago lawyer, Chester Kamin, has indicated that his client "doesn't know much of anything" about Lincoln, a source said.

At the insistence of lawyers for the Resolution Trust Corp., Keating pledged to cooperate in federal investigations focusing on his brother Charles as one condition of his being relieved of legal responsibility for Lincoln's collapse, sources said. Charles Keating controlled Lincoln and its parent company, the American Continental Corp.

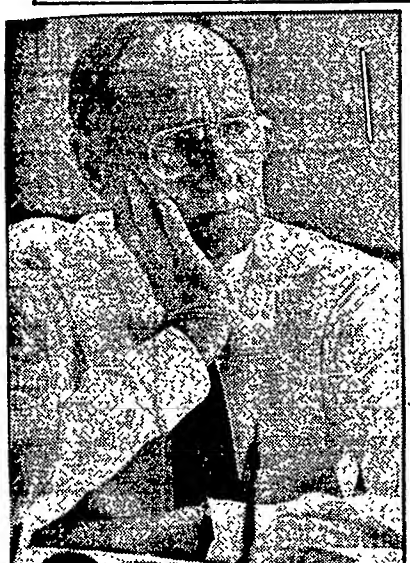
Minimizing the significance of the cooperation clause, one source said that if William Keating knew "a lot that was damaging," the government would be reluctant to drop him from legal action.

THE NEWS reported Monday that government lawyers, pursuing a $1.1-billion damage suit against the Keatings and 18 others stemming from Lincoln's failure, are preparing to seek dismissal of the three counts against William Keating. The thrift's failure could cost taxpayers more than $2 billion.

Keating's lawyer has persuaded them that Keating served more briefly on the board of American Continental Corp. than the one-year term indicated by public records and attended only two, inconsequential directors' meetings, sources said.

WILLIAM KEATING has agreed to be interviewed by investigators if they are not satisfied with his lawyer's representations about his scant knowledge of the affair, the sources said. They said there are no significant disagreements over the deal recently worked out between William Keating and the government, but that it may take longer than originally thought for lawyers to set it to writing.

The sources said that, according to Kamin, William Keating contends he was unaware that his brother and other American Continental executives allegedly were requiring Lincoln to begin paying $94 million to the parent firm to cover future taxes — money that never was passed on to the Internal Revenue Service. He also has professed no knowledge of other alleged irregularities, such as American Continental's floating of $230 million in unsecured junk bonds that victimized numerous elderly people or the award by Lincoln of large loans without proper underwriting documents, the sources said.



William Keating: Attended two board meetings.

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JAN 26 1990
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FD-350 (Rev. 5-8-81)

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Senators made appeal for sale of troubled thrift

WASHINGTON — Two senators made last-minute appeals to top banking regulators urging a sale — rather than government seizure — of Lincoln Savings & Loan last spring after being lobbied on behalf of the owner and a potential buyer, according to interviews and documents.

Before the April 14 seizure, Sens. Dennis DeConcini, D-Ariz., and Alan Cranston, D-Calif., asked the nation's chief thrift regulator to approve any legal and proper sale of Lincoln — owned by a major campaign contributor, Charles Keating Jr. Aides to the senators said the intervention resulted from their desire to save taxpayers money and to preserve jobs at Keating's companies.

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THE DETROIT FREE PRESS
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FROM OUR READERS

Sen. Riegle needs a quick course in ethics

U.S. Sen. Donald Riegle's Dec. 8 reply to Free Press Editor Joe Stroud's Dec. 3 column was an insult to my intelligence ("Constituent service and public interest are the same in S&L and JOA cases").

The distinction made in your editor's note, that Knight-Ridder Inc. had not made monetary contributions to the congressional delegation's campaign funds, as had American Continental Corp., is paramount. If Riegle cannot understand the significance of this, he needs a high school course in ethics.

Secondly, though I am not in favor of the JOA, I can still buy the New York Times, Christian Science Monitor or Toronto Globe and Mail without it costing more than a nominal sum. The Lincoln Savings and Loan fiasco, on the other hand, is going to cost the taxpayers billions of dollars. There is no choice in the matter. Such disregard of the public is an example of deceit or extreme incompetence. In either instance, Riegle should be ousted.

Kalvin Garrity
Wyandotte.

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FBI DOJ

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Detroit Free Press
Detroit, Mi.

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Influence, Money and Politics

The savings and loan scandal brings to the fore the whole question of money and political influence. Sen. Donald Riegle wrote a lengthy letter to the Detroit Free Press last week contending that his intervention with regulators on behalf of a California thrift was no different than writing a letter to the attorney general urging approval of the Joint Operating Agreement (JOA).

In fact, there was a big difference — $76,100 to be exact.

That's the amount of money that executives connected to the California S&L contributed to Sen. Riegle's 1986 re-election campaign. The Free Press says it offered nothing to Sen. Riegle in return for his services except the hope that some jobs might be preserved in his district if the JOA were approved.

It remains to be seen whether the contributions to Sen. Riegle from the thrift executives were in any way improper. There is nothing necessarily wrong or illegal about a senator or representative intervening with bureaucrats to make sure a constituent is receiving fair play. It's not right, however, for wealthy constituents to be able to buy favors that lesser constituents couldn't expect to receive. Sen. Riegle later returned the contributions, saying he wanted to avoid even the appearance of impropriety.

Sen. Riegle has never been shy about fund-raising. A September 1988 article in The News depicted how the senator received more than $17,000 in campaign funds from individuals connected to an Arkansas chicken-raising concern after he voted in favor of a measure exempting it from paying certain deferred taxes. In late 1986, this newspaper criticized a letter Sen. Riegle had sent to potential contributors, asking them to attend a $1,000-a-head fund-raising event and reminding them that he was about to take a seat on the important Senate Finance Committee.

Many critics believe that this sort of thing makes an argument for tightening campaign finance laws or even public financing of elections. As far as we are concerned, however, the best disinfectant remains sunlight — laws that require timely disclosure of campaign contributions.

When government is pumping out huge amounts of money and regulations, special interests will always find a way to jump to the head of the queue. The campaign finance laws already have been tightened considerably, and the main effect has been to make it tougher for political challengers to raise funds. Public financing would simply drive the competition for campaign funds under the table.

When Arizona financier Charles Keating was asked whether the $1.4 million in campaign funds that he raised for five U.S. senators, including Sen. Riegle, was intended to buy influence, he responded: "I certainly hope so." The donations are now the focus of numerous investigations to see if any laws were broken. It should generally be left to voters to decide whether they like their senator's or congressman's fund-raising habits, however. An informed voter is honesty's best friend.

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Riegle compares efforts for thrift, Detroit JOA

Conduct defended in letter to Free Press

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Michigan Sen. Donald Riegle, fighting back on questions about his conduct in the Lincoln Savings & Loan Association controversy, is comparing his actions in the Lincoln case to his support for a joint operating agreement between the Detroit Free Press and Detroit News.

In an eight-page letter to the Free Press, Riegle suggests that his and other Michigan congressmen's intervention on behalf of the JOA and Knight-Ridder Inc., the Free Press' owner, was stronger than his intervention in the Lincoln case.

Riegle was one of five senators who met with federal regulators in 1987 to discuss Lincoln's complaints that it was being harassed by regulators.

The Senate Ethics Committee is reviewing the senators' conduct. All five accepted large political contributions from officials associated with Lincoln or controversial Arizona developer Charles Keating Jr., who controlled the ~~Irvine, Calif.~~, thrift.

In his letter, Riegle compares his

See RIEGLE, Page 19A

"A transcript from the meeting . . . shows my conduct to have been absolutely proper."

DONALD RIEGLE

Text of the letter, Page 15A.

(Indicate page, name of newspaper, city and state.)

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meeting in Phoenix with Keating to one in Miami with then-Knight-Ridder Chairman Alvah Chapman Jr.

"He asked me to intervene on behalf of his company," said Riegle, referring to Chapman.

Riegle said that while he met with federal regulators to discuss Lincoln, he never suggested any course of action. And neither he nor his staff wrote any letters or made any calls to regulators regarding Lincoln, he said.

"By contrast, in the case of Knight-Ridder, I joined other members of Congress in making direct efforts to impact the administrative process in the JOA proceeding," Riegle wrote.

Those efforts, he said, included a Jan. 28, 1988, letter from 16 Michigan congressmen to then-Attorney General Edwin Meese III, who was considering the Free Press' proposed JOA with the News.

Meese said Thursday he never knew about the letter. "At no time was I influenced or contacted by anyone, inasmuch as great precautions were made to keep me from being contacted by anyone from the outside."

Meese approved the JOA in 1988 but it didn't begin until Nov. 27 because of a long court challenge. Under joint operations, the newspapers have combined their business operations but news and editorial functions remain separate and independent.

Riegle said his actions in neither case were improper.

Riegle said that while he met with federal regulators to discuss Lincoln, he never suggested any course of action.

Differences in the cases

According to other Michigan Congress members, the Lincoln and JOA cases have some major differences:

The government has filed a $1.1-billion fraud and racketeering suit against Keating, several relatives and other people in the Lincoln collapse. Keating also faces criminal investigations.

No suits have been filed against Knight-Ridder or the Free Press alledging fraud in the JOA matter.

In addition, a computer search of campaign contributions for Riegle in 1987-88 showed no contributions from officials of the Free Press, the News, Knight-Ridder, News owner Gannett Co.Inc., or the Detroit Newspaper Agency, which operates the newspapers' combined functions under the JOA.

William Keating, Charles' brother, is chairman of the DNA. He is a defendant in the government suit in the Lincoln matter because he was a director of American Continental, its parent company, for about a year. The suit charges him with negligence.

William Keating has refused to discuss the suit, but his lawyers are trying to get him removed from it.

William Schultz, a Washington lawyer who represented the JOA opponents, had this reaction to Riegle's letter: "Oh, my God! Very clever."

Schultz said that while he disagreed with the lobbying by Riegle and the others on behalf of the JOA, he did not see any direct comparisons to the Lincoln matter.

In addition, a private meeting "sounds much more underhanded" than a public letter, as in the JOA case, Schultz said. But he added that Riegle's allegation on the JOA "serves you guys right."

The major difference, he said, was the lack of contributions from Knight-Ridder to Riegle, compared to the $78,250 Keating and his associates gave for the senator's successful 1988 re-election campaign.

The Federal Election Commission said Thursday it is investigating the Keating political contributions to Sen. John McCain, R-Ariz., one of the five senators in the Lincoln case. Officials said the review could extend to the other senators.

Most members of Michigan's congressional delegation would not comment directly on Riegle's letter.

'Asking too much'

However, Rep. William Ford, a Democrat who has opposed the JOA, said he did not sign the delegation letter to Meese because he thought Meese had acted unethically when he worked for President Ronald Reagan and because he thought the letter was an improper intervention.

"I thought it was asking us for too much," Ford said of Knight-Ridder's request for the letter.

Chapman, now chairman of Knight-Ridder's executive committee, confirmed in a statement Thursday that he met with Riegle in Miami in January 1988 and that Riegle and 15 other members of the Michigan delegation signed the letter to Meese.

"The letter was on the record and was one of several hundred other such letters sent by both public officials and private citizens in Michigan," Chapman said. "My colleagues ... and I were grateful to Sen. Riegle for his public and wholly legitimate efforts on our behalf."

The letter to the Free Press is part of what appears to be a new, aggressive tactic by Riegle to defend his conduct in the Lincoln controversy.

During the last two months, Riegle has avoided extensive media interviews on Lincoln, saying the Ethics Committee was the proper forum for the matter.

In recent days, however, Riegle has granted more interviews and is now on a three-day trip to Michigan in which he is meeting with television reporters, newspaper editorial boards and others to discuss Lincoln and other matters.

Riegle has returned $78,250 in contributions from Keating and his associates. Top federal regulators have said in sworn testimony that they were not influenced by Riegle and the other senators, but the Ethics Committee is considering whether to open a formal investigation of their conduct.

Mid-level regulators and some members of Congress are worried that the intervention by the senators delayed a federal takeover of Lincoln and thus increased the taxpayers' cost of the collapse to the current estimate of more than $2.3 billion.

Riegle said the situations of the Miami-based Knight-Ridder and the Phoenix-based American Continental were similar.

Both are out-of-state firms with Michigan outlets and Michigan jobs, he said, referring to the Free Press and to the Hotel Pontchartrain in downtown Detroit once controlled by American Continental.

Thursday night, during a taping of an interview at WXYZ-TV (Channel 7), Riegle noted that the Free Press had praised the company's plan, since abandoned, to expand the hotel and referred to the "good reputation" of Crescent Hotel Group, the Keating-controlled partnership that owned it.

"Obviously," Riegle said, "he (Keating) passed the judgment of your newspaper. His brother has come into town to run the JOA."

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Ethics inquiry may not be politically fatal for Riegle

By Gregory Gordon
Detroit News Washington Bureau

WASHINGTON — For the first time in his 22-year congressional career, Sen. Donald Riegle, D-Mich., faces a formal ethics investigation by his peers — a development that's sure to distract him in coming months.

The Senate ethics committee played Scrooge to Riegle and four other senators Friday, announcing it voted to start a "preliminary inquiry" into their ties to Charles H. Keating Jr., who ran California-based Lincoln Savings and Loan until it collapsed last spring.

Robert Kurz, a guest scholar at the Brookings Institution, said the investigation "certainly becomes a preoccupation and a distraction" for the senators. But "it need not be fatal" politically, he said.

Indeed, no Senate ethics investigation in history has led to expulsion — although Sen. Harrison Williams, D-N.J., quit in 1982 as the Senate moved toward expulsion after his Abscam bribery scandal conviction.

ON THREE other occasions in this century ethics inquiries led to public reprimands or censure. They were matters involvings Sens. Herman Talmadge, D-Ga., in 1980; Thomas Dodd, D-Conn., in 1967; and Joe McCarthy, R-Wis., in 1954. In each case, the reprimand resolution denounced conduct that brought the Senate "dishonor" and "disrepute."

In Riegle's case, the panel's vote to proceed with an inquiry already under way means the third-term Democrat failed to brush aside allegations surrounding his efforts to aid Lincoln after his 1988 reelection campaign got $78,250 in contributions from Keating and associates. Riegle sent the panel a six-page letter in his defense last October.

The other four senators — Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., John Glenn, D-Ohio, and John McCain, R-Ariz. — attended two meetings with federal regulators on Lincoln's behalf in April 1987 after receiving hefty campaign contributions from Keating's forces.

"The fact that the ethics committee found sufficient evidence to move forward is certainly an indication of the serious nature of these allegations," Kurz said. "It's premature to judge the outcome, but it means that you begin the new year with a cloud over part of the Senate."

DAVID KRAWITZ, Riegle's administrative assistant, shrugged off concerns about his boss' ability to do his job and chair the Senate Banking Committee while huddling with his lawyer about the inquiry.

"He's a tough guy," Krawitz said. "Ever since this whole story has broken, I've seen him work as hard as ever. We've been actually accomplishing a lot legislatively and we have high hopes to accomplish a great deal in the new year."

Fred Wertheimer, president of the citizen's lobby Common Cause that requested the investigation, said his group feels the committee has "taken the correct and appropriate steps so far."

Riegle and his colleagues, dubbed the "Keating Five," also face a preliminary FBI investigation and could be called to testify at further hearings on the estimated $2-billion Lincoln collapse before the House Banking Committee.

Congressional sources say staffers on the House panel are divided on whether to urge Chairman Henry Gonzalez, D-Texas, to delve further into the senators' politically embarrassing role.

Senior Democrats in the House and the Senate reportedly have tried to dissuade Gonzalez from pursuing the senators further because the political revelations could damage the party's chances of retaining Senate control in upcoming elections.

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Detroit, Mi.

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(Mount Clipping in Space Below)

Ethics committee steps up probe of Riegle, 4 others

BY DAVID WILLMAN
Free Press Washington Staff

WASHINGTON — The Senate Ethics Committee, after a 10-week review, announced Friday that it will begin a more formal investigation of Michigan Democrat Donald Riegle and four of his colleagues and their involvement with former savings-and-loan owner Charles Keating Jr.

The committee said it was advancing its initial review to a preliminary inquiry based on advice from its special outside counsel.

"Fairness to all requires a thorough and complete review of all relevant facts and circumstances," the committee said in a written statement.

The decision essentially obligates the panel members to make a formal judgment on their colleagues. The informal review could have been dropped without any official conclusions.

The other senators are Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John Glenn, D-Ohio, and John McCain, R-Ariz. The five obtained $1.4 million in political contributions from Keating and his associates and interceded with federal savings and loan regulators on Keating's behalf.

All five senators said through spokesmen that they welcomed the

See RIEGLE, Page 9A

investigation and expect to be exonerated.

Riegle's administrative assistant David Krawitz, said the senator would not comment further.

Riegle has said he did nothing more for Keating, whose company owned the Hotel Pontchartrain in Detroit, than he would have for any other constituent. He has returned $78,250 in Keating contributions.

After the Ethics Committee launched its first review, Riegle hired Washington lawyer Thomas Green to handle his defense.

The committee also announced it would move to a preliminary inquiry of Sen. Alfonse D'Amato, R-N.Y. A former opponent has accused D'Amato of improperly seeking favors for campaign contributors from the Department of Housing and Urban Development.

According to a Senate source, the committee authorized the savings and loan inquiry after its two most senior members, Sen. Howell Heflin, D-Ala., and Sen. Warren Rudman, R-N.H., received a recommendation from the special counsel, Washington lawyer Robert Bennett.

The new stage of the Keating investigation allows Bennett to subpoena evidence and witnesses, said the source, who spoke on condition of anonymity. But a Riegle spokesman said the senator already has given Bennett documents.

The Ethics Committee's statement emphasized that no wrongdoing has been established, and said the committee has taken no position on "the merits of the allegations or the weight of the evidence."

The federal government has filed a $1.1 billion civil racketeering lawsuit against Keating, former owner of the Irvine, Calif., Lincoln Savings and Loan Association, accusing him of looting the thrift's taxpayer-insured deposits. Keating faces myriad other federal and state investigations.

The suit also names Charles Keating's brother, William Keating, chairman of the Detroit Newspaper Agency, who was a director of his brother's holding company for about a year. William Keating, who is charged with negligence, reportedly is trying to negotiate to be dropped from the suit in exchange for cooperating with the government.

The Justice Department's public-integrity section also is investigating the five senators' dealings with Charles Keating.

The senators met twice with regulators in 1987 to relay Keating's complaints he was being harassed. Riegle attended only the second meeting, at which regulators disclosed they planned to seek criminal investigations of Keating.

Riegle, Glenn and McCain have said that they then ceased dealing with Keating. DeConcini and Cranston continued raising money from Keating and kept contacting regulators on his behalf through April.

Under Ethics Committee procedures, the committee first determines whether there is reason to believe Senate rules have been violated. If that is established, the committee then tries to find out whether there is substantial evidence of violations, a higher standard of proof.

If the committee agrees that substantial evidence exists, a final investigation begins. If rules violations are found, punishment can range from reprimand to expulsion from office.

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If Helmsley received 4 years in prison, what does Keating deserve for S&L failure?

"We don't pay taxes. Only the little people pay taxes." — Elizabeth Baum, housekeeper, quoting her employer Leona Helmsley during Helmsley's trial for tax evasion.

JOAN BECK

It's not nice to gloat. But sometimes it can't be helped. A case in point: Leona Helmsley.

The self-styled queen, who preened about her position and power in hundreds of ads for her husband's hotels ("The only Palace where the queen stands guard"), was sentenced last week to four years in prison, a $7.1 million fine, 750 hours of community service in a home for drug-addicted children, almost $2 million in back federal and state taxes, three years probation and court costs.

She had it coming. As U.S. District Judge John M. Walker Jr. put it, her "conduct was a product of naked greed." She believed she was "above the law and displayed no remorse or contrition."

Helmsley was convicted in August on 33 felony counts, including evading $1.2 million in federal income taxes by fraudulently billing $3.1 million in personal and home expenses to the $5 billion hotel and real estate empire she and her husband control.

It wasn't because the hotel queen was pinched for money. Forbes magazine says her husband Harry is still worth $1.7 billion, although his empire is slipping because of his mental problems and his wife's interference and mismanagement.

Even Leona's own lawyer, Gerald Feffer, called her a "tough bitch" in court. He hoped to defuse some of the testimony to follow about her outrageous cruelty to employees, her explosive tantrums, her insistent demands for cutbacks on purchases and her petty refusals to pay suppliers and tradespeople for enormous amounts of goods and services.

But, as Feffer told the jury, being a "tough bitch" isn't against the law. Neither is ugly intimidation of employees and servants or pushing a husband into disgraced senility or spending money outrageously or mismanaging a huge business enterprise.

The best defense he could come up with for her was that her employees juggled the books just so they could stay away from her because dealing with her was so unpleasant. The feeble argument didn't work.

Leona went through the Palace Hotel, where she kept her office, and other Helmsley properties like Alice in Wonderland's Red Queen, ordering heads to roll for no reason, making outrageous demands and spewing vindictiveness and anger. Although she usually acted kissy-kissy cutesy with her husband in public, she did call him "you old moron jerk" in front of others and told him to butt out of her dealings. Increasingly, he did.

"I am Leona Helmsley and I can do whatever I want to," she said again and again.

And she did — whether it was taking the once well-regarded Harry Helmsley away from his devoted wife of 33 years or buying $2 million baubles or chewing out a delivery man over a $5.95 charge, or putting a $12.95 girdle from Bloomingdale's and a $58 leg waxing on a hotel business account.

She lied about her age, which is now 69. And she forced her advertising agency to make her photograph well,

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which account executives did with technological advances in retouching.

Before the sentencing, Feffer told the judge that Leona has been "ridiculed, abused and humiliated in an unprecedented way having nothing to do with her wrongdoing." The crowd taunted her as she and her ailing husband left the courthouse.

The punishment she has been taking will certainly continue. The Harvard Lampoon Parody of Forbes' annual issue on the richest people in America, for example, has a fold-out picture of Leona in a jail-stripe bikini stretched out smilingly on a fur rug in a prison cell with the caption, "Leona Helmsely welcomes you to the only palace in the world where the queen is under guard."

But it's hard to keep a gloat going for long. As Feffer told the court, being a "tough bitch" is not a crime. Neither is meanness or marrying up or what a psychologist has called "malignant narcissism." What is a crime is cheating taxpayers.

If Leona gets four years in prison and a $7.1 million fine for bilking the federal government out of $1.2 million, what's fair play for Charles Keating? The financial games he played with Lincoln Savings and Loan Association may cost taxpayers about $2.5 billion. Other mismanaged and manipulated S&Ls must be bailed out with at least $50 billion — probably much more — in taxpayers' dollars.

Keating has taken the precaution of enlisting the help of five prominent senators (with $1.3 million in campaign funds, for example) who have run interference with him in regulatory circles. The little people who do pay taxes almost certainly are never going to get their $2.5 billion — or their $50 billion — back and probably won't even have any good Keating jokes to show for it, let alone a chance to gloat.

Chicago Tribune

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Dropped from S & L lawsuit, DNA's Keating remains silent

By Michael Clements
Detroit News Washington Bureau

WASHINGTON — Although Detroit Newspaper Agency head William J. Keating has been dropped from a $1.1-billion lawsuit against his brother, he still declines to answer questions about the case.

Chicago lawyer Chester Kamin said he advised Keating not to discuss the federal case while it remains in the courts. Keating, the president and chief executive officer of the Detroit Newspaper Agency, did not return a call to his office.

Resolution Trust Corp., the federal agency responsible for handling savings and loan bailouts, filed a notice Friday in Phoenix to dismiss Keating as a defendant in a lawsuit against his brother, Charles, and other officers and directors of American Continental Corp.

The corporation is the parent company of Lincoln Savings and Loan Association of Irvine, Calif., whose failure may cost taxpayers as much as $2 billion.

Kamin said Keating was dropped from the lawsuit because he did not have a substantive role in the operation of the corporation. "Bill knows very little about this," the attorney said.

William Keating, who served on the board of his brother's corporation for five months in 1986, was named in three counts involving the failure to fulfill the directors' duties. He was not charged with fraud and racketeering.

Asked if the charges were dropped in exchange for Keating's cooperation in the case against his brother, Kamin said, "I can't comment on that. I can only say I would be very surprised if anyone in the government would support that statement."

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Cartoonists pen Riegle to the wall

By Deb Price
Detroit News Washington Bureau

WASHINGTON — Editorial cartoonists are drawing national attention to Sen. Donald Riegle's effort on behalf of a tottering savings and loan run by a prominent campaign contributor.

While many of the Senate's 100 members are relatively anonymous beyond their own states, the Michigan Democrat's face and name have been introduced to newspaper readers around the nation in a context of ridicule.

"With every new account of $500 or more, you get this U.S. senator doll to have in your pocket," said an S&L teller drawn by Bruce Beattie of the Daytona Beach News-Journal in Florida.

"The trick for the cartoon," Beattie explained, "was to do a cartoon that highlighted not just one or two of the senators — John Glenn or Alan Cranston — but the five of them all together to highlight their involvement as a group."

Similarly, Jim Borgman of the Cincinnati Enquirer chose to focus on all five rather than just his home state Democrat. "It would almost be incorrect to single Glenn out at the expense of the others," he said. "I think they are of a group now in the story and in people's minds."

In addition to Riegle, Glenn and Cranston of California, the group includes Dennis DeConcini and John McCain, both of Arizona.

ASKED IF recent cartoons he's seen are fair, Riegle responded: "Cartoons are only a caricature — not a complete picture."

Actually, the satirical drawings may not cause lasting political damage, one scholar said.

"For relatively ordinary mortals like U.S. senators to be suddenly cartooned strangely is not interpreted in our celebrity culture as the mark of Cain but rather as the mark of prominence," said Stephen Hess, author of *The Ungentlemanly Art*, a history of American political cartooning.

"In some ways, it is a barometer of 'I have arrived.'"

If so, they've surely arrived in a pointedly humorous way.

Borgman, satirizing a contention the senators merely were helping a constituent when they met with federal regulators over a troubled S&L, drew an average voter having no luck getting their attention.

"A meeting of powerful senators is convened to protect the interests of Joe Blow, who has not contributed to their re-election campaigns," he wrote under a cartoon showing the senators' empty seats. Joe Blow waits alone in a cobwebbed room right out of the home of jilted Miss Havisham in Charles Dickens' *Great Expectations.*

"I have to think that if someone walked in off the street, they're not going to get that kind of attention from five powerful senators," the Cincinnati artist said.

These cartoons and others rebuke the senators for meeting with regulators about the Lincoln Savings and Loan of Irvine, Calif., after its president and his associates gave them a total of $1.3 million in political contributions. All five senators have denied wrongdoing, arguing they merely were pursuing banker Charles Keating's claims that he was being harassed by the regulators.

MANY OF the cartoons focusing on the five senators were published as the House Banking Committee held hearings on the scandal. Committee Chairman Henry Gonzales, D-Texas, has said he may hold more hearings when Congress returns in January, which could make the senators editorial page targets again.

Such lampooning has had a political impact in the past.

New York City's "Boss" William Tweed, who went to jail after stealing public funds in 1873, had proclaimed: "Stop them damn pictures. I don't care so much what the papers write about me. My constituents can't read. But, damn it, they can see pictures."

The appearance of impropriety is an old standby for cartoonists. And it is that appearance — which is being pursued by a Senate ethics panel — that has made the five senators a natural target, several cartoonists and analysts said.

"It's just a nice subject for cartoons, like fires on the 6 o'clock news," remarked Martin Linsky, an instructor at Harvard's School of

But seasoned politicians are apt to be flattered by artistic lampoons.

"I've had people call the first time they were in an editorial cartoon and say they felt they were now a legitimate public figure," said Bill Schorr of the Kansas City Star. Other cartoonists cite similar calls.

RIEGLE AIDE David Krawitz said the senator has been in many cartoons during his career, a few of which the staffer has hanging in his Washington office. The senator's staff has not been collecting cartoons about Lincoln S&L, Krawitz said.

Several cartoons play off of the failed thrift's name. Mike Ramirez of Copley News Service showed the senators standing shame-faced before a teary "Honest Abe" Lincoln.

Paul Conrad of the Los Angeles Times pointed a gun at an unsuspecting Lincoln, alluding to the assassination at Ford's Theater. "Who shot Lincoln S&L?" his cartoon asked. Multiple-choice answers featured the five senators' names.

Schorr of Kansas City portrayed Keating as sounding and looking like Lincoln. With top hat and whiskers, he stood behind a lectern and declared, "You can buy some of the Senate all of the time ... and all of the Senate some of the time."

In another Schorr carto[redacted] big-time contributor Keating [redacted] dressed as Santa with the senators in a bag over his shoulder. "The gift that keeps on giving," Keating said.

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JIM BORGMAN/Cincinnati Inquirer

A cobwebbed citizen and five empty chairs make one cartoonist's point.

> **"Cartoons are only a caricature — not a complete picture."**
> **U.S. Sen. Don Riegle**

Cartoonist Steve Benson of the rizona Republic dressed Keating as robber and sketched him escaping ›er a bridge made of the five sena- ›rs. "Just helping a friend," the ıption said.

BUT DO political cartoons do ıything more than elicit a laugh or wince? Does it matter if someone who had never before heard of Donald Riegle sees him in a cartoon?

"The only way a cartoon is really effective in forming an impression of a politician is if the cartoon is one of the few places where the people get exposure to the politician," said Richard West, who edited a now-defunct journal on cartooning.

"If this story stays in the press a long time, it could have long-lasting problems for Riegle. If it is the issue of the month and dies out quickly, the image in which he is portrayed in political cartoons, I think, will have a negligible effect on his future."

Hess agreed. "Don Riegle would have to stay in the news a lot longer than he's likely to do for his participation in the affair for it to stick to him like a mud ball."

Yet cartoons could prove annoying in a national campaign.

"It is possible that these cartoons could be one of the few bits of exposure the public has to these senators who are outside their states," West said.

"The people of Michigan have a lot of ways to judge their senator. ... (Elsewhere) this may be the first time they've even heard of the guy. And if the cartoon is particularly memorable, it could form their long-lasting perception of him. ... This could be the only real perception that a lot of folks have of his service in the Senate."

But Riegle isn't worried. Asked if he thinks cartoons could hurt him, he replied: "People make their judgments based on facts, not cartoons."

RAMIREZ/Copley News Service

One syndicated cartoonist depicted a tear rolling down Lincoln's face as he faced the five senators under investigation in the savings and loan scandal.

FD-350 (Rev. 5-8-81)

(Indicate page, name of newspaper, city and state.)

Detroit Free Press
Detroit, Mi.

Date: 12/30/89

Edition: 8A

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Character: or Classification: 58C-PX-41605

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(Mount Clipping in Space Below)

Keating dismissed from S&L lawsuit

BY WILLIAM F. RAWSON
Associated Press

PHOENIX — Federal attorneys on Friday dismissed William Keating as a defendant in a $1.1-billion lawsuit stemming from the failure of a savings and loan owned by his brother Charles Keating's American Continental Corp.

William Keating was one of several family members and American Continental executives named in a suit filed in September by the Resolution Trust Corp., the federal agency responsible for cleaning up the thrift industry.

William Keating is president and chief executive officer of the Detroit Newspaper Agency, which prints and sells the Free Press and Detroit News, and chairman of the board of the Associated Press.

Keating, reached in Cincinnati Friday night, said he had expected to be dropped from the suit, but refused to provide any details.

"Well, that's right. I'm really not going to comment on it or discuss it with you at all.

"I was dismissed from the lawsuit and that's all I have to say about it. ... I really don't have any intention of discussing this with you or anyone with the Free Press," Keating said.

The suit, filed in U.S. District Court in Phoenix, accused Charles Keating, several family members and other senior company officers of devising a scheme to loot Lincoln Savings and Loan Association of Irvine, Calif.

The thrift was seized by federal regulators April 14, one day after American Continental filed for reorganization under Chapter 11 of federal bankruptcy laws.

William Keating was not accused of fraud and racketeering but was named in three of 15 counts and was accused of negligence and breach of fiduciary duty. He had served for five months in 1986 on the American Continental board of directors, according to Chester Kamin, his Chicago lawyer.

A source close to thrift regulators had said earlier that Keating was negotiating to have himself dropped from the suit. The source said the government hoped to gain Keating's cooperation in the prosecution.

Attorneys for the Resolution Trust Corp. filed a notice in federal court on Friday that Keating had been dismissed, without prejudice, as a defendant in the case.

Kamin said that because the dismissal is "without prejudice," it was possible, though unlikely, that Keating could be reinstated as a defendant in the case.

Neither Michael Manning, a Phoenix lawyer who has represented the Resolution Trust Corp. in the case, nor P. John Owen, a Kansas City lawyer who signed the notice of dismissal on behalf of the Resolution Trust Corp., could be reached for comment.

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& Phoenix

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Keating coverage questioned in Ohio

Charles Keating

A former aide to Charles Keating told the Free Press that Keating attempted to discover the contents of the Enquirer story in advance. After Keating consented to an interview with the editor of the Enquirer — but not the reporter whose byline appeared on the piece — a profile ran without any reference to the party.

George Blake, editor of the Enquirer, acknowledged that he removed the party passage from a Dec. 19, 1988, article by reporter Mark Braykovich. But he said his decision was not made at Charles Keating's request, or because Keating's brother William is the Enquirer's chairman.

William Keating, a former publisher of the Enquirer, left that post in May 1986 to become chief executive officer of the Detroit Newspaper Agency, which runs the business affairs of the Free Press and Detroit News under the joint operating agreement.

John Zanotti, the Enquirer's current publisher, said William Keating's remaining title of chairman at the paper is honorary and that he has no operational role.

At the time the Enquirer published its story, shorn of references to the party, Charles Keating was still selling junk bonds issued by American Continental to Ohioans through Lincoln.

At least 80 Ohioans, mostly from the Cincinnati area, bought American Continental Corp. bonds and securities, the Akron Beacon Journal reported last week. Some

See KEATING, Page 2C

KEATING, from Page 1C

of the investors say the Keating name played a role in their decisions. Larry Friedman, 73, of Cincinnati, said he was familiar with Keating's anti-pornography reputation when he invested $12,500. "We thought they were reputable people," Friedman told the Akron paper.

In Cincinnati, some brokers who touted Keating's bonds are going out of business and TV stations there have been running daily accounts of retirees who have lost their life's savings in the wreckage of Lincoln Savings.

Meanwhile, the Enquirer's handling of Lincoln and Keating stories has been a subject of internal debate and questions from outsiders.

Regarding the Braykovich profile of Keating that ran last year, George Blake, editor of the Enquirer, said he called Charles Keating — whom he'd met once at an Associated Press meeting in Phoenix — and asked for an interview after Braykovich's interview request was spurned.

"I just called Charlie and said, 'We're doing a story and would like your input on a number of areas and here are the questions,'" Blake said. "I read him the questions, and he gave me his answers."

The story that ran — without reference to the party — described Lincoln's removal from the jurisdiction of the San Francisco regulators as "a settlement" in which Keating "appears to have emerged with a victory."

(Indicate page, name of newspaper, city and state.)
THE DETROIT FREE PRESS
DETROIT, MICHIGAN

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Pg. 1(C)

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Patricia Johnson, once Charles ~~Keating's~~ spokeswoman ~~in Phoenix~~, said in a recent interview that her ex-boss had exhorted her to find out what Braykovich's story might say. She said she was instructed by Keating to call an aide to Enquirer publisher Zanotti for help "in trying to find out what Mark was trying to put together."

Johnson said the aide had been personal friends of the Keatings since the brothers' days in Cincinnati and that Charles Keating was eager to soften the blow of any upcoming Enquirer story.

But Blake said he cut out the party details because he doubted — and still doubts — the accuracy of the account.

"The story is being embellished more and more as I hear it," Blake said. "We've also got some people denying that certain things happened. I didn't have any trust in the credibility of the whole story as we were getting it. So, I pulled it out."

More recently, Blake has addressed questions about the Enquirer's coverage of William Keating as one of 37 defendants in a federal lawsuit against Charles Keating, his family members and companies.

William Keating is negotiating to have himself dropped from the suit in exchange for his cooperating with investigations of Lincoln, according to regulatory sources. In the lawsuit, William Keating is charged with gross negligence and breach of fiduciary duty during a period in 1986 when he was a director of American Continental.

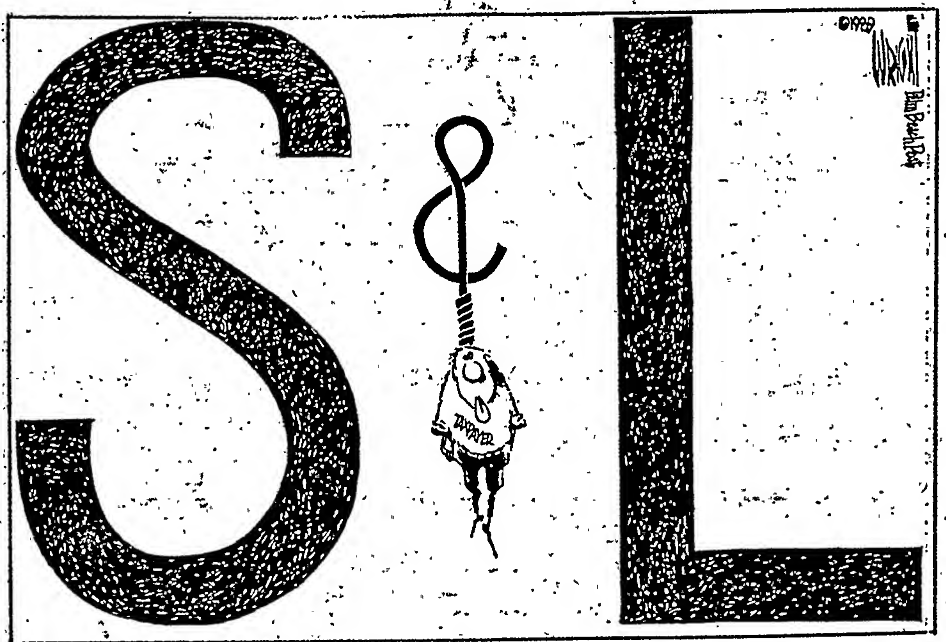
On Dec. 17, Blake wrote a column about the Enquirer's coverage of Charles and William Keating. Both of the Enquirer's references to William Keating as a defendant in the federal lawsuit were brief mentions on inside pages of the paper. "I make no excuses for our play of the story. To me, Bill Keating is a man of unflinching honesty. I would be astonished to find that he had done anything even approaching the lawsuit's charges," Blake wrote.

Questions about Keating-related coverage at the Enquirer are similar in some respects to questions raised in Detroit, where William Keating heads the DNA. At the Free Press, some staffers met with executive editor Heath Meriwether recently to air questions about the paper's coverage of the Keatings, and Meriwether wrote a column on the topic.

William Keating has thus far refused comment on all questions concerning his brother and the companies his brother controls.

FROM OUR READERS

We question judgment of S&L senators



How stupid, naive and gullible does Sen. Don Riegle, D-Mich., think the electorate is? In his Dec. 8 response to the Free Press, he compares apples and oranges to justify his participation in the now infamous meeting with the regulators of savings and loans ("Constituent service and public interest are the same in S&L and JOA cases"). This unheard of, unprecedented appearance by five U.S. senators (the "Keating Five"), all recipients of large campaign contributions from Charles Keating, speaks for itself.

Sens. John Glenn, D-Ohio, and John McCain, R-Ariz., wrap themselves in the flag. Sens. Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., and Riegle say that we impugn their honesty and their motives. We don't question their patriotism or their honesty. We question intelligence, judgment and their priorities.

When personal and private interests have priority over the public welfare, their motives are obvious.

D.J. Bennett
Tecumseh

Why did they give so much?

A million dollars a day is a conservative estimate of the amount extracted from the stock and bond holders of Lincoln Savings & Loan by Charles Keating and his cohorts, from the time that our several senators decided that no action need be taken. This probably does not seem like much to the senators, but to many of us this amount seems appreciable.

The involved senators, after the usual investigations, will, of course, be vindicated and/or exonerated, and the matter will be eventually forgotten. There remains one question to which a direct answer is needed: Sen. Riegle, why did Charles Keating favor you to the extent of more than $78,000?

Donald Bunker
Flint

Give government back to people

Recently, the media have had a number of news stories and editorials regarding the multibillion-dollar savings and loans scandal, which may cost the people more than $200 billion. In addition, there has been the HUD scandal and many others (Watergate, Abscam, Koreagate, etc.). Most of these have been caused by greedy, selfish interest groups and corrupt government officials who have sold out our democracy.

If we hope to prevent our government from becoming both morally and financially bankrupt, we must take back government from the rich and greedy and restore it to all the people. To accomplish this, we must fully implement the First Amendment, which gives the people the right to petition the government. At present, only the selfish, vested interest groups can effectively petition the government because of their obscene amounts of money and their shrewd lobbyists.

We, the people, are entitled to the right to petition the government effectively through a national voter referendum. This would enable the people to initiate and vote on legislation and constitutional amendments, similar to the referendum process in Michigan and 22 other states. Without a national voter referendum to right what's wrong with our government, our country may be headed for an economic catastrophe that could lead to a revolution.

James F. O'Neil
National Chairman
We the People
Livonia

Paper cut account of party while junk bonds were sold

BY BERNIE SHELLUM
Free Press Business Writer

As Lincoln Savings & Loan Association unraveled into the nation's worst thrift debacle, owner Charles Keating carried on a non-stop battle against federal thrift regulators but won few clear-cut victories.

May 20, 1988, was an exception. That day, M. Danny Wall, the top regulator, had transferred oversight of Keating's Lincoln Savings unit to Washington, D.C., from San Francisco, where federal regulators were denouncing Keating's business practices and urging a criminal investigation.

Wall's decision touched off what the Arizona Republic recently described as a champagne-splashed, window-smashing celebration at the Phoenix headquarters of Keating's American Continental Corp., Lincoln's parent.

Keating himself struck a Superman pose and pulled open his shirt, exposing a skull and crossbones over the letters FHLBB (for Federal Home Loan Bank Board), signaling his mastery of the vanquished regulators, according to the Republic's account.

The revelry flew in the face of Keating's long-honed reputation as a straitlaced moralist who crusaded against pornography in Cincinnati and led Phoenix crowds in saying the rosary.

Since the Republic published details of the party on Dec. 3, the Free Press has learned that a Cincinnati Enquirer reporter wrote a similar story a year earlier, while American Continental Corp. was still peddling securities that have become virtually worthless since its bankruptcy filing last April. But the party story never ran in Keating's hometown paper, whose ex-publisher and still chairman is William Keating, Charles' younger brother.

Cincinnati, where Charles Keating launched his financial career, was a fertile area in recent years for sales of American Continental Corp. bonds and securities.

FD-350 (Rev. 5-8-81)

U.S. seeks to rid firm of Keating

American Continental sinking fast, suit says

By Lisa Morrell and Jerry Kammer
The Arizona Republic

Federal officials called Friday for the ouster of Charles H Keating Jr. and his management team from American Continental Corp., claiming they are destroying the company financially, according to a motion filed in U.S. District Court in Phoenix.

In a motion filed late Friday, the Resolution Trust Corp. says Keating's management team should be replaced as soon as possible by a court-appointed trustee.

The federal agency claims in its filing that Keating's managers are spending all of American Continental's money to "vindicate and protect their personal interest" in myriad lawsuits and investigations connected to Keating's business dealings.

Keating, American Continental's chairman, reacted

— See U.S., page A8

Charles H Keating Jr. / He, his associates and their families have contributed a total of $1.3 million to the senators who now are being investigated.

'Keating 5' will face formal ethics inquiry

By Ed Foster
The Arizona Republic

The U.S. Senate Ethics Committee announced Friday that it will convene a formal inquiry into the actions of Arizona Sens. John McCain and Dennis DeConcini and three other senators, who are accused of improperly intervening with federal thrift regulators in behalf of Charles H Keating Jr.

In what it termed a procedural matter, the committee will launch a "preliminary inquiry" into whether the senators' misused their offices to help a campaign contributor.

Critics have charged that the intervention delayed the government takeover of the Phoenix financier's Lincoln Savings and Loan, driving up the cost of the insolvent thrift's bailout.

The panel also announced an inquiry of Sen. Alfonse D'Amato, R-N.Y., who has been accused by

— See ETHICS, page A8

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)

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U.S. seeks control of Keating firm

U.S., from page A1

angrily to the filing late Friday, calling it "a transparent and desperate attempt to sidetrack" three civil suits he has filed against the government and its thrift-regulating agencies.

"They're just plain scared of the litigation," said Keating, breaking several months of silence with the press.

"They're scared. They're frightened. They're scared of the truth. They're afraid of us in the courtroom."

The government is asking District Judge Richard Bilby for a hearing as soon as possible to protect investors and creditors from having their money squandered on attorneys' fees. American Continental is being protected from creditors by U.S. Bankruptcy Court while undergoing reorganization.

"If the bleeding is to stop, and the patient is to survive, immediate action is required," the Resolution Trust Corp. said.

Marc Kalish, an attorney representing the agency, said he hopes Bilby will hold a hearing by mid-January on whether to appoint a trustee to manage the Phoenix corporation.

Keating expressed confidence that he will be vindicated in court as a result of the suits he has filed. He said the suits have taken review of American Continental's operations out of the hands of federal thrift regulators, whom he has accused of bias and vindictiveness.

"The person who has found the facts against us up until now has been the trier and the judge," he said, referring to regulators who seized the pillar of his empire, $5 billion Lincoln Savings and Loan, on April 14, a day after American Continental filed its Chapter 11 bankruptcy petition.

"For the first time ever we are finally getting to the position where we have a completely unbiased and fair tribunal," Keating said.

Keating said that in order to preserve the corporation's assets, he intends to take a $1-a-year salary beginning Jan. 1. He was earning about $3 million a year in salaries and bonuses until the bankruptcy filing, when his salary was reduced to $400,000 a year.

Keating said he wanted to take the nominal salary "in order to provide an example and to do what is the best thing in the interests of the company."

He said the company has asked a Chicago consulting firm to search for a general manager to oversee American Continental's operations.

Before the government seized Lincoln, the company and its subsidiaries had about 2,500 employees and $6 billion in assets.

Currently it has about 75 employees and $87.4 million in assets, all of it real estate. Lincoln Savings had accounted for most of the corporation's assets.

Donald Gaffney, an attorney representing the Unsecured Creditors Committee, a group of American Continental creditors, said he does not think the federal agency's allegations provide grounds for the appointment of a trustee. The request for a trustee is the agency's attempt to cripple its opponent in litigation, American Continental, Gaffney said.

But Kalish, representing the agency, said the action is necessary, in part, because the committee "hasn't done anything" to protect the creditors.

The government's motion claims that American Continental has made no progress toward reorganizing its finances since June, when Keating presented an initial plan to pay back creditors over 14 years.

Instead, Keating's management is pursuing "expensive litigation of questionable" benefit to the company's creditors and investors. The company is spending more than $1 million a month on attorneys' fees in the cases.

The Resolution Trust Corp. has filed a $1.1 billion civil racketeering lawsuit accusing Keating and company insiders of siphoning Lincoln's money for personal gain.

The company is in danger of running out of cash by April, according to the Resolution Trust Corp. Ronald Warnicke, the court-appointed examiner in the American Continental bankruptcy case, has said the corporation could run out of cash by the end of January.

In addition to the racketeering suit, there are at least five investors' lawsuits against American Continental's executives and its attorneys and accountants; a congressional investigation; state and federal grand-jury investigations; and probes by the Securities and Exchange Commission, the U.S. Justice Department and the Federal Election Commission.

Ethics panel plans formal probe of 5 senators

— ETHICS, from page A1

a political opponent of improperly helping contributors get federal housing money.

The committee said the preliminary probes do not mean that the panel has taken positions on the allegations.

"The decision to proceed by preliminary inquiry in each of these matters is being undertaken for procedural reasons only," a statement said.

"The committee wishes to stress that it has taken no position as to the merits of the allegations or the weight of the evidence."

A preliminary inquiry is the first of three steps the committee can take. The two others, in ascending importance, are an "initial review" and a full-scale investigation.

In addition to McCain and DeConcini, the other members of the so-called Keating Five are Sens. Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The senators have denied any impropriety, saying they simply got involved for a constituent.

DeConcini said Friday that the committee was required to formalize its probe.

"They must do what they are doing now whenever somebody requests an investigation," he said.

"Common Cause requested an investigation of all five senators."

Common Cause is a government-watchdog group.

No one answered the phone at the Ethics Committee's offices Friday, but the panel's statement said it voted to conduct preliminary inquiries upon the recommendations of special outside counsel.

DeConcini added that he looks forward to the investigation.

"I welcome a thorough evaluation of the facts," DeConcini said. "I feel we will be exonerated."

McCain and Cranston were unavailable for comment Friday. Their spokesmen said the lawmakers expect to be exonerated. Riegle's press aide did not return calls, and the senatorial offices of Glenn and D'Amato were closed for the holidays.

In November, the Ethics Committee hired Washington attorney Robert Bennett to look into a complaint by Common Cause that the five senators misused their offices in Keating's behalf. The senators have received a total of $1.3 million in contributions from Keating, his associates and their families.

The committee said in its statement Friday, "Fairness to all concerned requires a thorough and complete review of all relevant facts and circumstances.

"Therefore, the committee, upon the recommendations of special outside counsel, has voted to conduct preliminary inquiries regarding these matters."

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators, except Riegle, and Federal Home Loan Bank Board Chairman Edwin Gray. The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations. The thrift is based in Irvine, Calif.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln was seized by the federal government in April. The cost of bailing out the insolvent thrift is expected to be as much as $2 billion.

(Mount Clipping in Space Below)

Charles Schumer / The congressman says there is "an inherent conflict of interest" in the accounting and appraisal professions.

William Black / "The worst thrifts spent fantastic sums on (appraisers and accountants) and used them as a . . . screen to hide the thrift's misconduct."

Appraising the auditors

Analysts may be held accountable for thrift failures

By Jerry Kammer and Andy Hall
The Arizona Republic

Developer Charles H Keating Jr. and an entourage flew from Phoenix to New York City last year and demanded that auditors allow American Continental Corp. to show a $56 million profit for a series of investments.

But Arthur Young & Co.'s lead auditor, Janice Vincent, said "no" and insisted Keating's company had earned no profit.

"Lady, you've just lost a job," Keating said acidly.

Within a few weeks, American Continental moved its multimillion-dollar account to another auditing firm, Touche Ross & Co., which offered a preliminary opinion that the investment profits were legitimate.

The federal Securities and Exchange Commission disagreed.

Six months later, American Continental sought bankruptcy protection, and one of its subsidiaries, Lincoln Savings and Loan, was seized by federal regulators, who alleged that the thrift was financially "unsafe and unsound."

Accountants and real-estate appraisers, who legally are obligated to objectively estimate land values, were key figures in the rise of Keating's $6 billion worldwide empire.

But it has become clear that accountants and appraisers failed to protect investors and taxpayers from enormous losses in the collapse of the nation's thrift industry,

— See AUDITORS, page A16

(Indicate page, name of newspaper, city and state.)

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Auditors may be held accountable for thrifts

— AUDITORS, *from page A1*

~~including~~ Lincoln Savings.

Suspicions are growing that these professional watchdogs behaved more like lap dogs.

Rep. Jim Leach, R-Iowa, a member of the House Banking Committee, which is probing Lincoln's collapse, called it "a scandal for the accounting profession."

Similarly, William Black, chief counsel for the Federal Home Loan Bank in San Francisco, told the Banking Committee that some appraisers have helped thrifts artificially inflate land values, dooming their loans to failure.

James Feder, an American Continental attorney, denies that the company's auditors and appraisers were improperly pressured to provide favorable analyses.

He said the dispute with Arthur Young in New York was a personality issue.

6 of 11 audits improper

"This was a very heavily lawyered, accounted, professional company," Feder said.

The General Accounting Office, the investigative arm of Congress, this year reported that in six of 11 failed thrifts it studied, accountants "did not properly audit and/or report the savings and loans' financial or internal-control problems in accordance with professional standards."

Taxpayers are beginning to pick up the tab, estimated at $2 billion just for Lincoln, the costliest of the nation's 300 S&L failures. Investors are faced with the loss of $230 million they entrusted to American Continental's junk bonds.

"If you eliminated appraiser abuse, you would probably reduce the losses suffered by the federal government by a minimum of 25 percent," said Peter Barash, a House Banking Committee staff director.

The government may try to force negligent accountants and appraisers to help repay the losses of the failed thrifts that employed them. Criminal investigations are under way.

Reform movements also are under way in the accounting and appraisal professions.

Among the problems reformers must address are:

- Potential conflicts of interest — Accountants and appraisers are required to provide objective analyses, although they are hired by a particular company or S&L. The pressure to write a favorable report, to ensure future business, can be enormous.
- Fraud — More than a dozen accountants are being accused in government lawsuits of fraud stemming from the failure of thrifts, including Lincoln.

Crime allegations

A former Tustin, Calif., auditor has been a fugitive since 1986, when the government accused him of negligence, conflict of interest and malpractice in the $65 million collapse of Ramona Savings & Loan Association.

In Texas, three appraisers have been indicted in connection with alleged fraud at Dallas-based Empire Savings and Loan, which was seized in 1984 by federal regulators. One has been convicted, and two are awaiting retrial.

- Questionable qualifications — There are no education or licensing requirements for appraisers in Arizona and 34 other states, although there are voluntary industry professional standards. As a result of the S&L crisis, however, Congress has ordered that states establish licensing or certification for appraisers who will work on "federally related transactions," beginning in mid-1991.
- Lax self-policing — Accountants and appraisers have come under attack for failing to discipline unscrupulous members of their ranks.

In 1987, the latest year for which figures are available, the American Institute of Certified Public Accountants revoked the membership of 16 of its 280,000 members for violation of accounting rules.

The government is considering adding three "Big Eight" accounting firms as defendants in a $1.1 billion civil racketeering and fraud suit that accuses Keating and company insiders of siphoning Lincoln's deposits for personal gain. The accounting firms, all of which previously worked for Keating, are Arthur Young, now called Ernst and Young; Arthur ~~Andersen,~~ and Touche Ross.

'Conflict of interest'

"I have always wondered how the accounting profession and the appraisal profession work, because obviously, the people who you're giving the stamp of approval to are paying you," Rep. Charles Schumer, D-N.Y., a member of the Banking Committee, told Ernst and Young executives at a hearing in November.

"And there is an inherent conflict of interest in that."

Despite Arthur Young's "last stand" with Keating over the $56 million in "profits," the accounting firm has not been spared from harsh reviews for the two years it worked for Keating. Schumer told the executives that he was "amazed" at what happened while they worked for Keating from 1986 to 1988.

"And if you couldn't catch some of these things, then something is rotten in Denmark, then something has to be changed in the auditing profession," Schumer said.

In testimony to the House Banking Committee in October, Black said, "Lincoln is proof positive that any thrift in America could obtain a clean audit opinion despite being grossly insolvent."

He added that Arthur Young did work for two failed thrifts in Texas.

The firm's Dallas office, Black said, offered the "K mart blue-light spe-

cial" to savings and loans that shopped for compliant auditors. The failures of two thrifts the firm audited there, Vernon and Western Federal, are expected to cost the federal insurance fund about $1 billion each.

Land sales critiqued

Fifteen sales of land by a Lincoln subsidiary, all of which were reviewed and approved by Arthur Young, were the subject of a blistering report released in August by federal thrift regulators.

The report, prepared for the government by the Kenneth Leventhal accounting firm, called the sales phony and the accounting incompetent.

"Seldom in our experience as accountants have we encountered a more egregious example of the misapplication of generally accepted accounting principles," it said.

Feder, the American Continental attorney, condemned the Leventhal report as inaccurate and seriously flawed because no interviews were conducted with companies involved in the transactions.

Much of the federal probe of Arthur Young centers on Jack D. Atchison, who headed the Phoenix audit team that checked Keating's books for 1986 and 1987, a period when Lincoln was making many of the transactions regulators now allege to have been fraudulent.

In early 1988, shortly after signing American Continental's annual report for 1987, Atchison resigned his $225,000-a-year position to go to work for Keating, earning $954,000 in salary and bonuses.

In early 1987, Atchison played a key role in persuading five U.S. senators to intervene in Keating's behalf with federal thrift regulators. Reflecting Keating's criticisms, Atchison wrote a now-controversial report saying that the regulators had taken "unusually antagonistic positions" against Lincoln and that their examination of the Irvine, Calif., thrift could be expected to conclude with an "unduly harsh" report.

Intervention justification

Atchison has refused to comment on his actions.

The senators repeatedly have pointed to that "opinion of a Big Eight accounting firm" as their justification for intervening.

Although several members of the House Banking Committee speculate that Atchison's employment with American Continental may have been a form of payment for improper accounting, that theory is rejected by Ernst and Young executives.

"We have no reason to believe that Mr. Atchison committed any impropriety" during his affiliation with the firm, said William Gladstone, co-chief executive at Ernst and Young, adding that a number of other employees assisted Atchison in reviewing Lincoln's books.

Gladstone said his firm "applied its best, independent professional judgment" to its Lincoln audits. Ernst and Young accountant Nancy Matusiak told the House committee that the Kenneth Leventhal report made "sweeping generalizations" and "some serious mistakes."

Atchison was not alone in leaving his accounting job to work for Phoenix-based American Continental. Keating's son, Charles H. Keating III, an American Continental executive vice president, estimated that the company has hired more than 50 certified public accountants from independent firms that had examined its books. One of them was Andrew Liggett, the company's chief financial officer, who came to American Continental from Arthur Andersen and is a defendant in the racketeering suit.

Appraiser felt pressured

Real-estate appraisers apparently were subjected to pressure to give American Continental the numbers it wanted.

Two real-estate industry executives who are close to former Lincoln appraiser Timothy Morrison say he resigned in June 1988 because he believed Lincoln officials were trying to push unrealistically high appraisals for vacant land at Estrella, a 20,000-acre master-planned community southwest of Phoenix.

Morrison's job was to review the work of appraisers hired by Lincoln from various firms in the Phoenix area and Tucson.

"Tim told me that the straw that broke the camel's back was Estrella," one of the executives recalled. "He said, 'I'm not signing off on those appraisals.'"

Morrison declined to discuss his resignation, citing a confidentiality agreement with American Continental. He now is an appraiser with the Burke Hansen appraisal firm of Phoenix.

An appraisal is an estimate of the value of a property. It helps a banker know how much to lend to the buyer. The idea is that if a loan goes bad, the bank, or savings and loan, will be able to recover its money by selling the land.

One method used by appraisers is to study sales of comparable properties, or comps. Regulators suspect that Lincoln created its own comps at inflated values with the help of compliant appraisers.

'Subjective elements'

The younger Keating, who directed land sales for the real-estate subsidiary of Lincoln Savings and Loan, denied that efforts were made to inflate land valuations at Estrella.

But he acknowledged that company officials disagreed with Morrison over appraisals.

He branded Morrison a "malcontent."

Keating said he frequently consulted with appraisers hired by Lincoln to evaluate land at Estrella.

"There are so many subjective elements to a piece of property that they have to work hand in hand with the developer to understand what those elements are," he said.

One important piece of information relating to Estrella was a study that projected rapid growth for the area, he said.

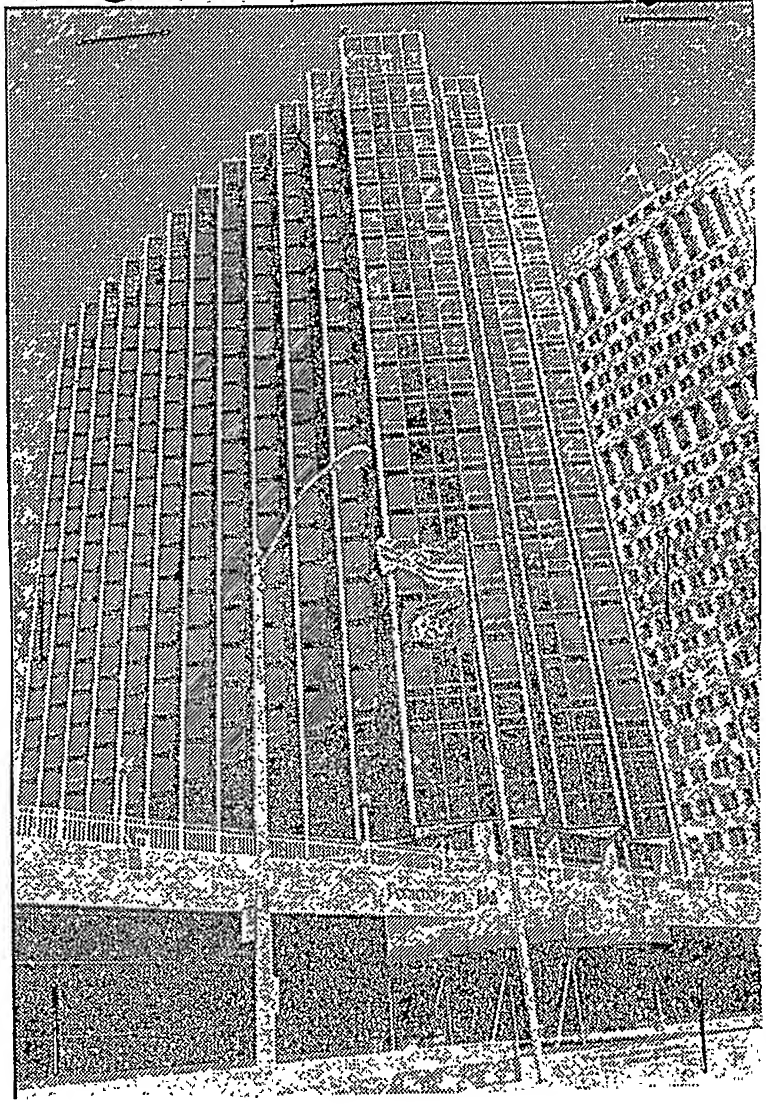
The study was done by Mountain West, a Phoenix-based real-estate consulting firm that also provided appraisals on some Estrella parcels.

The younger Keating said he doesn't think much of appraisers.

"I never knew one appraiser who made any money in the business," he said.

"If they're the experts, they should be the guys making all the money."

HOW MUCH IS A HOTEL WORTH?



A partnership composed of many American Continental Corp. insiders purchased the Hotel Pontchartrain in downtown Detroit in March 1985. Since then, however, business has sputtered at the hotel. Losses, which could total $10 million, will have to be covered by taxpayers. That is because the partnership borrowed money from Lincoln Savings and Loan and the San Jacinto Savings Association, a subsidiary of Southmark Corp., a Texas-based real-estate and finance company.

Federal regulations required the buyers to obtain appraisals to ensure that the hotel merited the loans of the thrifts' federally insured deposits.

Appraisals are estimations of value that serve as guideposts for potential borrowers and lenders on a property. Depending on projections of the profitability of a property, appraisals can fluctuate widely within short periods of time, as illustrated by this series of appraisals on the hotel:

March 1985: The Hotel Pontchartrain is valued at $37.2 million in an appraisal commissioned by an American Continental subsidiary and conducted by Michigan-based Dean Appraisal Co.

December 1985: The hotel is valued at $44.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted by Dean Appraisal Co.

March 1987: The hotel is valued at $46 million in an appraisal commissioned by Detroit and conducted by Hospitality Valuation Services Inc., based in Mineola, N.Y.

September 1988: The hotel is valued at $26.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted again by Hospitality Valuation Services.

January: The hotel is valued at $53 million in an appraisal commissioned by Lincoln Savings and conducted by Pannell Kerr Forster.

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(Mount Clipping in Space Below)

Valley tour lets McCain speak out

By CONNIE STEELE
Daily News-Sun staff

SUN CITY — U.S. Sen. John McCain, R-Ariz., is facing an ethics probe and the political fight of his life.

Questions about his past friendship with Charles H. Keating Jr., and whether Keating's campaign contributions prompted McCain to intercede on his behalf with federal thrift regulators have marred the senator's previously spotless career.

Saturday in a marathon tour of the Valley, McCain made five speeches and talked to members of the media.

"I'm pleased when I can get on TV and go direct to the people," he said, citing numerous appearances on network programs such as Night Line and Meet the Press.

Saturday night he spoke to about 160 members of the Republican Forum West, political issues group, at the Crestview Vacation Headquarters in Sun City West.

"Because I have so many constituents in this area, I thought it would be good to visit here," he said before the dinner meeting.

He had been invited to be the group's guest speaker last summer, but only recently accepted the invitation.

Among fellow Republicans, McCain's association with Keating was not brought up publicly except to tell the group, "One needs friends when one is beleaguered. I am deeply grateful for your friendship and support. We will emerge not only unscathed but better equipped for the job."

However, State Rep. Robert Williams, R-Sun City West, said privately, "It's very easy to get caught up in a spider's web with an unscrupulous man who you think is scrupulous.

"People are forgiving of a good person and I think he's a good person," Williams said of McCain.

"He tried to help a constituent and got burned. He's going to work his way out of it."

Another member of the group, Robert Holdway of Sun City West, said, "He faces a difficult task, but it's one he can overcome. If a senator is to respond to his constituency and conduct an investigation to see if his claims are valid, he shouldn't be pillaried."

McCain's aide, Wes Gullett, said the evening was an opportunity to discuss issues that wouldn't be discussed otherwise.

"The only thing the press is picking up on is the Keating thing and there's a lot more going on."

Catastrophic health insurance, economic recovery of Arizona and environmental issues were among those McCain touched on during a visit to the Daily News-Sun.

But despite making himself available to talk about any subject of interest, McCain made it clear he was in the area to tackle head on any questions voters might have regarding his relationship with Keating.

At issue is whether campaign contributions and gifts of personal travel prompted McCain to intercede with federal regulators on behalf of Keating and the failure of Lincoln Savings & Loan, a subsidiary of Phoenix-based American Continental Corp., of which Keating is chairman.

At the first of the two meet-

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Daily News-Sun photo by Connie Steele

WITH THE VOTERS — Sen. John McCain, R-Ariz., visited with voters Saturday as he talked with members of the Republican Forum West, at a dinner meeting in Sun City West.

ings, April 2, 1987, at Keating's request, McCain joined Sens. Dennis DeConcini, D-Ariz., Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's savings and loan.

On April 9 the same four senators and Donald Riegle, D-Mich., met again in DeConcini's office with officials from the bank board's San Francisco office.

McCain contends that he did nothing for Keating that he wouldn't do for any constituent.

"The obligation of any elected official when a constituent comes to him and says he's not being treated fairly is to get the facts," said McCain Saturday. "I have done this hundred of times in seven years as an elected official."

Determining the facts of Keating's claim of unfair treatment by federal thrift regulators was the sole purpose of the meeting, McCain said.

In addition to Keating being a constituent with a problem, McCain said he attended the meetings because Keating had provided "supporting materials" from Arthur Young & Co, a national independent accounting firm, and a letter from Alan Greenspan, now chairman of the Federal Reserve Board, endorsing Lincoln Savings' investment policies and its management.

See Senator, A4

Senator spends time in Valley

—From A1

Even so, "I explicitly told Mr. Gray that I was there only for the purpose of hearing the reasons for the Bank Board's actions, and that I did not want to do anything, or ask anything, which might be construed as improper," McCain said in a response to the Senate Ethics Committee dated Nov. 21 of this year.

The response was developed in answer to allegations of the citizen advocacy group, Common Cause, which earlier had filed a letter with the Senate Select Committee on Ethics.

His response contains a chronological review of events and conversations leading up to the 1987 meetings among the five senators, Keating and Gray, the meeting's outcome and his subsequent actions.

Also outlined is how McCain failed to immediately reimburse Keating or American Continental for personal travel to his friend's home in the Bahamas. Included are copies of canceled checks that later reimbursed American Continental Corp. for the transportation.

A 1989 check for $3,754 paid American Continental for four flights during the years 1984, 1985 and 1986 on Keating's corporate aircraft.

"Along with my wife, Cindy, and our daughter Meghan, I vacationed with the Keatings there in 1984, 1985 and 1986. On each of these three family vacations, Mr. Keating made available American Continental Corp. aircraft for at least some portion of the air travel ...

"I believed I had paid for this travel in a timely fashion," McCain said in his response.

Saturday, McCain called the payment oversight "a serious error; one I cannot excuse."

Air transportation provided to McCain was suggested in the Common Cause letter to the Senate Ethics Committee as one of the ways in which attendance of McCain and the other senators at the two meetings with bank board officials had been "purchased" — allegations McCain denies.

McCain also contends that once he became aware of the serious legal and financial problems facing Keating, he did not again attempt any contact with thrift regulators.

Saturday, he explained the media spotlight by calling it a "sexy" issue that contains all of the elements to draw interest.

"It's five senators; it's Charlie Keating; it's savings and loans."

McCain said he is fighting back the only way he knows how, by taking his case to the people.

"I can't sit tight," he said. "It's been very traumatic for me;" he said. "My strategy has been to make myself as available as I can. The other four senators haven't been as visible."

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(Mount Clipping in Space Below)

Ed Buck may join DeConcini recall bid

McCain included on activist's list

By Don Harris and Jerry Kammer
The Arizona Republic

The man who led a drive to recall then-Gov. Evan Mecham may join forces with the leader of a petition drive to recall Sen. Dennis DeConcini.

Former anti-Mecham activist Ed Buck and Jon Seidl of Phoenix, who manufactures magazines for automatic weapons and is a critic of the Arizona Democrat's efforts to limit such sales, have discussed a possible alliance and said Tuesday that they will meet today in hopes of reaching an agreement.

"There is a definite possibility of that," Seidl said. "But until our next meeting tomorrow, I can't say anything other than that.

"Nothing is finalized, nothing is locked in, nothing is committed."

Buck said he hopes to work with Seidl to target not only DeConcini but Sen John McCain, R-Ariz., for their efforts to intercede with federal regulators in behalf of Charles H Keating Jr., whose Lincoln Savings and Loan later collapsed.

"What were good men going into office are now cheap politicians, bought politicians," said Buck, a Republican. "It's a wonderful defense for senators to say, 'I was only serving a constituent.' My response is: 'But at the expense of all the rest of your constituents.'"

Buck's drive to recall Mecham collected nearly 40 percent more signatures than needed and was praised by election officials for its organization and accuracy. No election was held, however, because Mecham was impeached and ousted by the Legislature.

McCain spokesman Scott Celley said he gives "very little, if any, significance" to the proposed joint recall effort. Celley said any effort to recall McCain would fail for lack of public support.

Bob Maynes, a DeConcini spokesman, said he has no idea what Seidl is up to, and would not speculate on the significance of Buck possibly joining the recall.

Seidl, who had promised a status report on the number of signatures gathered by early November, repeatedly has delayed making any announcements.

"It's hush-hush right now," Seidl said. "You'll hear big things after the weekend. There will be a major shake-up in the organization and in the recall."

He declined to elaborate, except to say that DeConcini will not be happy with the development.

Seidl has until Jan. 6 to collect valid signatures of 291,135 registered voters.

About a month ago, Seidl said he was calling off the drive in Tucson, DeConcini's home base, because even Republicans were fearful of reprisals.

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Keating lawyers dispute seizure

Claim that S&L's deals were sound

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr.'s lawyers attempted Friday to pick apart the government's claim that it seized Lincoln Savings and Loan to stop the thrift from misusing federally insured deposits.

Keating's lawyers suggested in a hearing in federal District Court that even the testimony of the government's key witness showed that Keating's thrift, based in Irvine, Calif., sought sound business deals with legitimate business people.

Phoenix businessman Phillip Gordon also testified that adverse publicity generated by the government's efforts against Keating caused some of his partners to bow out of deals and refuse to pay debts owed to Lincoln.

And Keating lawyer John Lundin seized on the statement to portray the government as zealously trying to run Keating out of business.

"This is the first time that American Continental has had a chance to put its story forth in a fair hearing," Lundin told reporters later. "Gordon made most of our points."

Phoenix-based American Continental Corp. is Lincoln's parent company.

Lawyers of the Office of Thrift Supervision had called Gordon as a key witness to show that ~~officials of~~

— See LAWYERS, page A17

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CJ — PHOENIX

Lawyers call deals by thrift sound

—LAWYERS, *from page A1*

Lincoln and its parent improperly recorded a 1988 land swap as a sale and falsely reported a $4.4 million profit.

But Gordon's testimony didn't support the government's case entirely. He painted American Continental as a shrewd business that carefully studied proposals from land speculators such as himself.

Gordon was the key partner in a 1988 deal to sell American Continental a 35-acre parcel of raw land in Peoria and one day later buy a 445-acre parcel in Hidden Valley, southwest of Phoenix. Hidden Valley is part of American Continental's Estrella project.

James Murphy, chief lawyer for the Office of Thrift Supervision, cast the deal as a swap rather than a sale and said federal rules prohibit thrifts from claiming profits on land swaps. He said American Continental improperly crafted the deal as a sale in a scheme to pass on cash to troubled American Continental.

After the hearing, Murphy dismissed suggestions that he was angry about Gordon's testimony.

He said the government "didn't think of any of these witnesses as government witnesses."

Instead, he said, Gordon testified exactly the way he wanted him to, showing that "these are high-risk, direct investments" financed with federally insured deposits.

But during the hearing, Lundin countered that the deal was a legitimate sale. He said American Continental rejected several attempts by Gordon to orchestrate a land swap, a move that would have saved Gordon from paying federal income taxes.

The testimony came on the second day of a hearing in a suit filed in U.S. District Court in Washington by Keating contesting the government's seizure of Lincoln in April.

The hearings are focusing on four transactions that the government claims show that Lincoln was mismanaged and had to be seized.

District Judge Stanley Sporkin said the hearing will resume Jan. 2. At that time, the government plans to call Keating and key American Continental officials, Murphy said.

Gordon is part of a group of land speculators, politicians and investors who have been drawn into numerous government probes of Keating and his multibillion-dollar empire.

Although it did not come up at the hearing, Gordon is the brother-in-law of Ron Ober, vice president of Tucson-based R.A. Homes, which had received more than $50 million in loans from Lincoln. Ober, who has been interviewed about the loans by the FBI, also was a campaign aide to Sen. Dennis DeConcini, D-Ariz.

COLORADO: Thrifts' junk bond activities examined, **A18**

In a $1.1 billion civil racketeering suit filed in September against American Continental executives, federal regulators cite a sale by Amcor Investments, an American Continental subsidiary, to Gordon and a separate sale to R.A. Homes among a series of "sham transactions" that allowed Lincoln to record phony profits.

DeConcini and Sen. John McCain, R-Ariz., are among five senators facing Senate ethics and FBI probes about their ties with Keating, a hefty political contributor. The senators interceded with federal thrift regulators to get them off Keating's back.

The role of the senators was never raised during the hearing.

Instead, Sporkin decided to focus on the four transactions to determine whether the government acted properly in taking the thrift.

Gordon, the sole general partner of Sun Olive Ltd. Partnership, testified that he was eager to sell the 35-acre Peoria property and, after a half-dozen failed attempts in 1987 to cut a deal with Keating, had finally found one that Keating would agree to.

On Jan. 28, 1988, a Lincoln subsidiary bought Gordon's 35-acre parcel for $4.2 million. A day later, Lincoln sold the 445 acres in Hidden Valley to Gordon for $6 million.

Gordon had formed Hidden Valley Properties Limited Partnership to funnel the deal, and the partnership paid $1.5 million down and used a $4.5 million loan from Lincoln to buy the 445 acres, records say. The $1.5 million down payment came from the proceeds of the Peoria land sale to Lincoln the day before.

Gordon said the Hidden Valley partnership had $100 in cash assets one day, and just seven days later, the transaction allowed their assets to balloon to $1.5 million.

He said the partnership lost about $500,000 when it decided to make no further payments on the $4.5 million loan. He said he abandoned the deal because adverse publicity about Keating's woes led him to believe Lincoln and American Continental would not carry through with plans to develop the Hidden Valley area.

TRANSACTION MOVES

Jan. 28, 1988: Sun Olive Ltd. Partnership, whose general partner is Phillip Gordon, sells land in Peoria to Amcor Investments, a subsidiary of Lincoln Savings. Sale price is $4.2 million. Amcor Investments makes cash down payment of $1.9 million.

Jan. 29, 1988: Amcor Investments sells a 445-acre parcel to Hidden Valley Properties Limited Partnership, whose general partner is Gordon. The land is in the Hidden Valley area of the Estrella development southwest of Phoenix. Sale price is $6 million. Gordon makes a $1.5 million down payment. Lincoln records a profit of $4.4 million on Amcor sale to Hidden Valley Properties Limited Partnership.

June 25, 1988: The property Sun Olive Ltd. Partnership sold to Amcor for $4.2 million is appraised at $2.753 million.

Sept. 15, 1989: Regulators file $1.1 billion civil racketeering suit against Charles H Keating Jr. and other executives of Lincoln's parent company, American Continental Corp. The suit says Amcor's sale to Gordon was among a series of "sham transactions devoid of economic substance" that allowed Lincoln to record phony profits that then were diverted to American Continental. Regulators claim that the down payment Gordon received from Amcor on Jan 28, 1988, was used to make his down payment to Amcor the next day.

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TRANSACTION MOVES

Jan. 28, 1988: Sun Olive Ltd. Partnership, whose general partner is Phillip Gordon, sells land in Peoria to Amcor Investments, a subsidiary of Lincoln Savings. Sale price is $4.2 million. Amcor Investments makes cash down payment of $1.9 million.

Jan. 29, 1988: Amcor Investments sells a 445-acre parcel to Hidden Valley Properties Limited Partnership, whose general partner is Gordon. The land is in the Hidden Valley area of the Estrella development southwest of Phoenix. Sale price is $6 million. Gordon makes a $1.5 million down payment. Lincoln records a profit of $4.4 million on Amcor sale to Hidden Valley Properties Limited Partnership.

June 25, 1988: The property Sun Olive Ltd. Partnership sold to Amcor for $4.2 million is appraised at $2.753 million.

Sept. 15, 1989: Regulators file $1.1 billion civil racketeering suit against Charles H Keating Jr. and other executives of Lincoln's parent company, American Continental Corp. The suit says Amcor's sale to Gordon was among a series of "sham transactions devoid of economic substance" that allowed Lincoln to record phony profits that then were diverted to American Continental. Regulators claim that the down payment Gordon received from Amcor on Jan. 28, 1988, was used to make his down payment to Amcor the next day.

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Records link Keating to BF Goodrich bid

AKRON, Ohio (AP) -- Phoenix financier Charles Keating Jr. teamed with corporate raider Sir James Goldsmith last year in an attempt to take over BF Goodrich, according to federal records.

Bank examiner records show that a subsidiary of a California savings and loan controlled by Keating bought shares of the Akron-based company and transferred them to an investment partnership Goldsmith controlled, according to a story Saturday in the Akron Beacon Journal.

The documents prepared by regulators say the Goldsmith partnership "was formed primarily as a vehicle to perform a hostile takeover of BF Goodrich."

The documents are records of federal examinations of Keating's Lincoln Savings and Loan Association of Irvine, Calif. Lincoln was closed by federal regulators last April, one day after its holding company, American Continental Corp. of Phoenix, filed for bankruptcy protection.

Regulators estimate that guaranteeing the federally insured deposits they claim the S&L lost through risky investments, real estate and tax transactions could cost taxpayers more than $2 billion.

Goldsmith never said he was trying to take over Goodrich, but speculation that he was attempting to do so coincided with a rise in Goodrich stock last year. Goodrich issued a statement in April 1988 saying Goldsmith had told Goodrich Chairman John D. Ong that there was no truth to reports he intended to acquire a major stake in the company.

Keating's activities are being investigated by the House Banking Committee and he is

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the subject of a federal grand jury investigation in Los Angeles. The U.S. Department of Justice is also investigating whether Keating, formerly of Cincinnati, broke any laws by generating $1.4 million in campaign contributions to U.S. Sens. John Glenn, D-Ohio; Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; Alan Cranston, D-Calif.; and Sen. John McCain, R-Ariz.

Goldsmith in 1986 attempted a hostile takeover of Goodyear, also based in Akron. The buyout filed, but Goldsmith sold his shares in the company for a profit of about $94 million.

His arrangement with the Keating-controlled subsidiary, AMCOR Investments, allowed Goldsmith to mask part of his interest in Goodrich, the documents the newspaper obtained under the Freedom of Information Act showed.

In return for transferring the stock to the partnership, AMCOR Investments was given an "equity interest" in Goldsmith's partnership, according to the documents.

They indicate the equity in the partnership was exchanged for 468,395 shares of Goodrich stock with a book value of $51.86 a share, a total of nearly $24.3 million. The records, dated July 11, 1988, say the Goodrich shares "have reportedly been sold" to fund another Goldsmith transaction.

Keating lawyer James Ham, in a telephone interview Saturday from Los Angeles, called the examination reports quoted by the newspaper misleading.

"If it's in the examination report, there is a likely chance the documents are misleading ... They've demostrated a misunderstanding of a number of facts," Ham said.

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It is unprecedented for five sitting senators—among them the second-ranking Democrat, two military heroes and the chairman of the influential banking committee—to be under investigation. Next year, the Senate probably will have to pass judgment on them, in a process that may wrench the upper chamber much the way the House was torn by the Wright case. They could be censured by their colleagues and face action by law-enforcement authorities, for what former Home Loan Bank Board Chairman Edwin Gray has called "a clear subversion of the regulatory process."

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Continued From First Page

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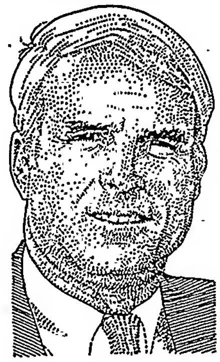

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Regardless, "Dennis thinks McCain is trying to take himself off the hook while indicating that Deconcini deserves the blame," says Charles Pine, a former Arizona Democratic boss, who has discussed the incident with the senior senator. In addition, DeConcini staffers believe a memo damaging to their boss was leaked to the press by a McCain aide, who denies it.

Despite Sen. McCain's efforts, the percentage of Arizonans who hold a negative view of him has grown by 10 points since the story broke. In bedrock Republican country, at a meeting of the Mesa Rotary Club, Mr. McCain visibly winces as an octogenarian member tells the senator he still believes in him. "The fact that my supporters even feel they need to say these things is evidence of how serious the situation is," he observes.

Mr. McCain is generally expected to survive and win re-election in 1992. But the senator, who was seriously considered as a running mate for George Bush in 1988, is no longer regarded as a rising national star in the GOP. "He can forget Iowa," snaps one Republican consultant.

DECONCINI: THE RINGLEADER?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.

Dennis DeConcini

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional homeloans if regulators would drop an investment restriction that bothered Mr. Keating.

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a $300 million luxury resort, the Phoenician, that Mr. Keating built as a monument to himself.

Mr. DeConcini denies taking the lead [illegible] trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.' "

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the $48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some $30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

CRANSTON: BADLY WOUNDED

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.

Alan Cranston

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: $850,000 for his voter-registration operations and $35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr. Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bur[illegible] of Investigation is reported to have [illegible]d its inquiry to examine whether [illegible]ployees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then: The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

RIEGLE: 'EAU DE COVER-UP'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who publishes a newsletter, Inside Michigan Politics.

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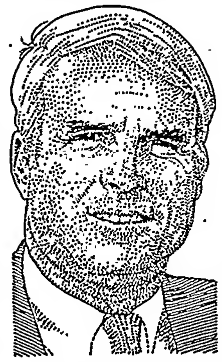

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DECONCINI: THE RINGLEADER?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional homeloans if regulators would drop an investment restriction that bothered Mr. Keating.

Dennis DeConcini

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a $300 million luxury resort, the Phoenician, that Mr. Keating built as a monument to himself.

Mr. DeConcini denies taking the lead trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.'"

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the $48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some $30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

CRANSTON: BADLY WOUNDED

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.

Alan Cranston

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: $850,000 for his voter-registration operations and $35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr. Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bureau of Investigation is reported to have widened its inquiry to examine whether employees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then. The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

RIEGLE: 'EAU DE COVER-UP'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who publishes a newsletter, Inside Michigan Politics.

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

DeConcini will tell Keating tale on TV

By Keven Willey
The Arizona Republic

Sen. Dennis DeConcini plans to buy major blocks of television time beginning next month to combat what he sees as "public misperceptions" about his role in meetings with federal regulators regarding Charles H Keating Jr. and Lincoln Savings and Loan Association.

Mike Crusa, DeConcini's state director, confirmed Tuesday that the Arizona senator plans to purchase the air time, probably in five-minute segments, to get his side of the story "directly to the folks."

Crusa declined to say how much money will be spent on the spots, saying those decisions had not been made yet.

DeConcini is the first of the so-called Keating Five to take such action.

He and four other senators have been faulted for meeting privately in 1987 with federal regulators in Keating's behalf after getting more than $1.2 million in campaign funds from Keating and his associates.

Other senators attending the meetings were Republican John McCain of Arizona and Democrats John Glenn of Ohio, Donald Riegle of Michigan and Alan Cranston of California.

In the meetings, the senators complained to the regulators about the length of time spent on an examination of Lincoln Savings, which was owned by Keating's American Continental Corp. They complained that the examination bordered on harassment and urged the regulators to charge Lincoln with an offense or close their books.

Dennis DeConcini / His state director says people are unaware that the senator returned money contributed by Charles H Keating.

Lincoln was seized in April by federal regulators, who now say that protecting the failing institution's depositors will cost taxpayers more than $1.5 billion.

Crusa said that the decision to buy television time was based on the results of a series of focus groups his office conducted in Maricopa County earlier this month. He said he is surprised and disappointed at what he calls the "depth of misunderstanding" of the public.

Crusa said many people are unaware that the senator returned money contributed by Keating and his associates.

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5 senators are facing ethics probe

Links to Keating will be reviewed

By Sean Griffin
The Phoenix Gazette

WASHINGTON — The Senate ethics committee has authorized a formal investigation to determine whether five senators linked to Charles H Keating Jr. violated Senate ethics rules.

The committee's special counsel has been granted authority to subpoena witnesses and documents related to Keating's involvement with Sens. John McCain, R-Ariz., and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

In a release issued today, committee chairman Howell Heflin, D-Ala. and ranking minority member Warren Rudman, R-N.H., emphasized that the committee's decision to proceed to what is known as a preliminary inquiry "is being undertaken for procedural reasons only."

The release stated that the committee "has taken no position as to the merits of the allegations or the weights of the evidence" compiled to date.

There are three formal stages and one informal stage in an ethics committee investigation. In the informal stage, the committee often selects a special counsel — in this case Washington attorney Robert Bennett — to help decide whether to proceed to the first formal stage, the preliminary inquiry.

Today's announcement ends the informal stage of the ethics committee

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■ Senators

From A-1

probe and provides its counsel with some powerful investigatory tools to see whether the facts merit moving on to an initial review, the second formal stage.

The final stage is a committee investigation and can include courtroom-type presentations to the committee, typically behind closed doors.

"The bottom line is there is no increase in the level of suspicion implied by this step," said Paul Jacobson, a spokesman for Rudman. "It simply gives him the authority to go in and look around."

To date, the committee has solicited statements from each of the senators, asking them about the contributions they received from the American Continental Corp. executive and his associates, their attendance at two meetings with regulators overseeing Lincoln Savings and Loan Association, an American Continental subsidiary, and subsequent contact they had with regulators on behalf of Keating, American Continental or Lincoln.

All the senators have denied wrongdoing.

Scott Celley, a spokesman for McCain, said the preliminary inquiry phase, which under committee rules generally lasts no more than 60 days, was good news for McCain "because we are confident the committee will find that he did nothing wrong and did not abuse his office in any way."

DeConcini issued a brief statement, saying, "I welcome a thorough evaluation of the facts, and I feel confident that I will be exonerated."

Murray Flander, press secretary to Cranston, told The Associated Press the transition to a formal probe "will obviate any charges of whitewash afterward."

Glenn and Riegle could not be reached for comment.

The five senators received a total of $1.4 million from Keating and his associates and met with regulators in April 1987 after Keating complained of being harassed by thrift examiners.

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U.S. seeks to rid firm of Keating

American Continental sinking fast, suit says

By Lisa Morrell
and Jerry Kammer
The Arizona Republic

Federal officials called Friday for the ouster of Charles H Keating Jr. and his management team from American Continental Corp., claiming they are destroying the company financially, according to a motion filed in U.S. District Court in Phoenix.

In a motion filed late Friday, the Resolution Trust Corp. says Keating's management team should be replaced as soon as possible by a court-appointed trustee.

The federal agency claims in its filing that Keating's managers are spending all of American Continental's money to "vindicate and protect their personal interest" in myriad lawsuits and investigations connected to Keating's business dealings.

Keating, American Continental's chairman, reacted

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Charles H Keating Jr. / He, his associates and their families have contributed a total of $1.3 million to the senators who now are being investigated.

'Keating 5' will face formal ethics inquiry

By Ed Foster
The Arizona Republic

The U.S. Senate Ethics Committee announced Friday that it will convene a formal inquiry into the actions of Arizona Sens. John McCain and Dennis DeConcini and three other senators, who are accused of improperly intervening with federal thrift regulators in behalf of Charles H Keating Jr.

In what it termed a procedural matter, the committee will launch a "preliminary inquiry" into whether the senators' misused their offices to help a campaign contributor.

Critics have charged that the intervention delayed the government takeover of the Phoenix financier's Lincoln Savings and Loan, driving up the cost of the insolvent thrift's bailout.

The panel also announced an inquiry of Sen. Alfonse D'Amato, R-N.Y., who has been accused by

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U.S. seeks control of Keating firm

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angrily to the filing late Friday, calling it "a transparent and desperate attempt to sidetrack" three civil suits he has filed against the government and its thrift-regulating agencies.

"They're just plain scared of the litigation," said Keating, breaking several months of silence with the press.

"They're scared. They're frightened. They're scared of the truth. They're afraid of us in the courtroom."

The government is asking District Judge Richard Bilby for a hearing as soon as possible to protect investors and creditors from having their money squandered on attorneys' fees. American Continental is being protected from creditors by U.S. Bankruptcy Court while undergoing reorganization.

"If the bleeding is to stop, and the patient is to survive, immediate action is required," the Resolution Trust Corp. said.

Marc Kalish, an attorney representing the agency, said he hopes Bilby will hold a hearing by mid-January on whether to appoint a trustee to manage the Phoenix corporation.

Keating expressed confidence that he will be vindicated in court as a result of the suits he has filed. He said the suits have taken review of American Continental's operations out of the hands of federal thrift regulators, whom he has accused of bias and vindictiveness.

"The person who has found the facts against us up until now has been the trier and the judge," he said, referring to regulators who seized the pillar of his empire, $5 billion Lincoln Savings and Loan, on April 14, a day after American Continental filed its Chapter 11 bankruptcy petition.

"For the first time ever we are finally getting to the position where we have a completely unbiased and fair tribunal," Keating said.

Keating said that in order to preserve the corporation's assets, he intends to take a $1-a-year salary beginning Jan. 1. He was earning about $3 million a year in salaries and bonuses until the bankruptcy filing, when his salary was reduced to $400,000 a year.

Keating said he wanted to take the nominal salary "in order to provide an example and to do what is the best thing in the interests of the company."

He said the company has asked a Chicago consulting firm to search for a general manager to oversee American Continental's operations.

Before the government seized Lincoln, the company and its subsidiaries had about 2,500 employees and $6 billion in assets.

Currently it has about 75 employees and $87.4 million in assets, all of it real estate. Lincoln Savings had accounted for most of the corporation's assets.

Donald Gaffney, an attorney representing the Unsecured Creditors Committee, a group of American Continental creditors, said he does not think the federal agency's allegations provide grounds for the appointment of a trustee. The request for a trustee is the agency's attempt to cripple its opponent in litigation, American Continental, Gaffney said.

But Kalish, representing the agency, said the action is necessary, in part, because the committee "hasn't done anything" to protect the creditors.

The government's motion claims that American Continental has made no progress toward reorganizing its finances since June, when Keating presented an initial plan to pay back creditors over 14 years.

Instead, Keating's management is pursuing "expensive litigation of questionable" benefit to the company's creditors and investors. The company is spending more than $1 million a month on attorneys' fees in the cases.

The Resolution Trust Corp. has filed a $1.1 billion civil racketeering lawsuit accusing Keating and company insiders of siphoning Lincoln's money for personal gain.

The company is in danger of running out of cash by April, according to the Resolution Trust Corp. Ronald Warnicke, the court-appointed examiner in the American Continental bankruptcy case, has said the corporation could run out of cash by the end of January.

In addition to the racketeering suit, there are at least five investors' lawsuits against American Continental's executives and its attorneys and accountants; a congressional investigation; state and federal grand-jury investigations; and probes by the Securities and Exchange Commission, the U.S. Justice Department and the Federal Election Commission.

Ethics panel plans formal probe of 5 senators

— ETHICS from page A1

a political opponent of improperly helping contributors get federal housing money.

The committee said the preliminary probes do not mean that the panel has taken positions on the allegations.

"The decision to proceed by preliminary inquiry in each of these matters is being undertaken for procedural reasons only," a statement said.

"The committee wishes to stress that it has taken no position as to the merits of the allegations or the weight of the evidence."

A preliminary inquiry is the first of three steps the committee can take. The two others, in ascending importance, are an "initial review" and a full-scale investigation.

In addition to McCain and DeConcini, the other members of the so-called Keating Five are Sens. Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The senators have denied any impropriety, saying they simply got involved for a constituent.

DeConcini said Friday that the committee was required to formalize its probe.

"They must do what they are doing now whenever somebody requests an investigation," he said.

"Common Cause requested an investigation of all five senators."

Common Cause is a government-watchdog group.

No one answered the phone at the Ethics Committee's offices Friday, but the panel's statement said it voted to conduct preliminary inquiries upon the recommendations of special outside counsel.

DeConcini added that he looks forward to the investigation.

"I welcome a thorough evaluation of the facts," DeConcini said. "I feel we will be exonerated."

McCain and Cranston were unavailable for comment Friday. Their spokesmen said the lawmakers expect to be exonerated. Riegle's press aide did not return calls, and the senatorial offices of Glenn and D'Amato were closed for the holidays.

In November, the Ethics Committee hired Washington attorney Robert Bennett to look into a complaint by Common Cause that the five senators misused their offices in Keating's behalf. The senators have received a total of $1.3 million in contributions from Keating, his associates and their families.

The committee said in its statement Friday, "Fairness to all concerned requires a thorough and complete review of all relevant facts and circumstances.

"Therefore, the committee, upon the recommendations of special outside counsel, has voted to conduct preliminary inquiries regarding these matters."

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators, except Riegle, and Federal Home Loan Bank Board Chairman Edwin Gray. The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations. The thrift is based in Irvine, Calif.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln was seized by the federal government in April. The cost of bailing out the insolvent thrift is expected to be as much as $2 billion.

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(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Keating alleges U.S. is looting Lincoln

Regulators blamed for $2 billion loss

By Jerry Kammer
The Arizona Republic

Under attack by federal regulators who accuse him of looting Lincoln Savings and Loan, Charles H Keating Jr. now contends that the government is doing the same thing.

Keating is blaming regulators for an estimated $2 billion in losses at Lincoln, claiming that the regulators drove the thrift into the ground with a calculated program of harassment and vendetta.

The allegations are contained in a 138-page report prepared for the federal Bankruptcy Court in Phoenix by attorneys for Keating's American Continental Corp., which is undergoing reorganization while being protected from creditors by the Bankruptcy Court.

The report claims that regulators' incompetence and pettiness destroyed Lincoln, not insider fraud as the government alleges in its $1.1 billion civil-racketeering suit against Keating and his business associates.

The report also attacks the media and the House Banking Committee, claiming that they distorted the significance of Keating donations to five U.S. senators who intervened with federal regulators on his behalf.

Keating is chairman of Phoenix-based American Continental, which operated Lincoln until the thrift was seized in April by regulators, who said it was unsafe and unsound. A projected $2 billion taxpayer bailout would make it the costliest failure in the savings and loan debacle.

Keating claims that the seizure of Lincoln was illegal and is suing to regain control of the thrift.

The American Continental report accuses regulators of targeting Keating for harassment because of his resistance to changes in federal

— See KEATING, page A5

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Keating says U.S. is looting Lincoln

— KEATING, *from page A1*

regulations governing thrifts.

After seizing Lincoln, regulators followed "a plan to reduce the value of Lincoln's assets" to justify the seizure while increasing the cost of the federal bailout, the report charges.

"In late 1988, philosophical and political goals and/or vengeance overcame whatever business sense the regulators possessed," the report charges. "They barred any skilled management of Lincoln's assets."

The report claims that regulators, because of their "deficient business analysis," are planning to sell the thrift's properties at prices below their true value.

Karl Hoyle, spokesman for the U.S. Treasury Department's Office of Thrift Supervision, defended the seizure of Lincoln as "necessary to protect the federal insurance fund" that safeguards thrift deposits.

"The purpose of the seizure was to remove those who were dissipating Lincoln's assets," Hoyle said. "That is why we took it from Mr. Keating."

Hoyle said that regulators have been criticized harshly for not seizing Lincoln sooner.

The American Continental report contends the furor over the intervention of the five senators with federal thrift regulators is exaggerated.

The senators, John McCain and Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio, and Donald Riegle of Michigan, received large campaign contributions from Keating. Their relationship with Keating is being investigated by the Senate Ethics Committee. McCain is a Republican; the others are Democrats.

The report claims that the media and the House Banking Committee "seem now to be eager" to find that the contributions "were somehow sinister, calculated to compel senators to attempt to influence improperly the (regulators)."

But it adds, "there is, of course, nothing improper about a constituent raising issues of possible regulatory impropriety with elected representatives, and the inference that lawful contributions compel men of integrity to act otherwise is simply unjustified."

The report also contends that allegations in the government's racketeering lawsuit "merely rehash further the allegations of the various (regulators') examinations" of the Irvine-Calif.-based thrift that invested heavily in undeveloped real estate, junk bonds and stocks.

The report also claims that midsummer news stories about the impending lawsuit, which was filed in September, demonstrate that the suit "has served the purposes of the federal regulators less as a lawsuit than as a vehicle and excuse for publicly pillorying defendants, humiliating them and their families, and permitting the media to act as billboards for the federal regulators' campaign of harassment and innuendo."

Keating denies buying influence

'I'm a fund-raiser,' he says, reversing statements of '89

By Michael Murphy
The Phoenix Gazette

WASHINGTON — Charles H. Keating Jr. has denied attempting to buy influence from five U.S. senators, including Arizona Sens. John McCain and Dennis DeConcini, making a sharp reversal of statements he made nearly a year ago.

Keating, after testifying in his lawsuit against the U.S. government, told reporters he "did not" attempt to purchase political favors. Keating and his associates donated more than $1 million to the senators, who have come under sharp fire for their intervention with federal regulators in 1987.

The senators' role in the affair has prompted a Senate ethics committee investigation.

Keating would not comment further, but appearing later on CNN's "Moneyline," he said his controversial statement a year ago "was a dumb way to say it."

In April, when the Phoenix developer was talking of his financial largesse to politicians, and whether he expected favors, he said: "I want to say in the most forceful way I can, I certainly hope so."

"I'm sorry I said it that way," Keating said Friday. "I'm a fund-raiser. I never contributed $8 million to anybody. What I did is what I've been doing for 30 years."

In his CNN appearance, Keating also blamed the government for causing the nation's savings and loan crisis, and said "something's wrong" when the public and press fail to question the "vilification of so many people, so many institutions through a constant spewing out of the government."

"We didn't have losses," Keating said of Lincoln Savings and Loan. "The losses occurred when they (federal regulators) moved in and after three years of examination took us down."

As a result of the government's seizure, Keating also predicted that "they'll wreck" The Phoenician Resort.

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■ Keating

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Keating's defense was the strongest he has made in public since the government seized Lincoln. He said that the thrift was being operated by the government "in an unsafe and unsound" manner. Keating said on television and in the court that Lincoln was singled out because of its non-traditional investment activities.

"The government comes in, confiscates the S&L, sits on the assets and everything deteriorates," he said. "This is an Alice in Wonderland situation."

Earlier in the day, a confident Keating concluded his testimony before a federal judge by saying he found the government's case against his operation of Lincoln Savings "lacking — as I expected I would."

"To me, it's obvious that they have not made a case," Keating told reporters Friday outside U.S. District Court. "Our turn now starts."

Keating was testifying Friday in a preliminary hearing on his lawsuit against the government that seeks to regain control of the thrift. The hearing is for the judge to determine if there is enough evidence to have a trial.

Lawyers for the Office of Thrift Supervision plan to call as a final witness an accountant who examined Lincoln. Then Keating's team of lawyers is to present its case.

No date has been set for continuation of the hearing.

Keating's lawyers said it would take at least eight days to present their explanation of why Keating believes regulators acted "arbitrarily and capriciously" when they took over Lincoln.

During his second day of testimony, Keating told U.S. District Judge Stanley Sporkin that Lincoln and its parent company were singled out for harassment by regulators who he claimed ruined what had been a profitable thrift.

"We were making money, big money. It was a profitable association right up to the end," the Phoenix developer said. "Had they left us alone, we, in my opinion, would still be making $100 million a year."

Keating is challenging the government's decision to seize Lincoln, an Irvine, Calif., thrift, on April 14. Federal regulators claimed Keating was operating the thrift in an "unsafe and unsound" manner by using it as a source of cash for his real estate empire and his own enrichment.

During an exchange with Sporkin, however, Keating described as "garbage" and "fiction" the case used by regulators to persuade the Federal Home Loan Bank Board to seize the thrift.

"The power of the FHLBB is awesome," Keating told Sporkin. "When you didn't comply, you became subject to an audit. They did come in and, basically by fiat, ruin your balance sheets."

The FHLBB is now the Office of Thrift Supervision.

Despite Keating's protests, a skeptical Sporkin said he was awed by the developer's ability to persuade the bank board in 1986 to move their examination of Lincoln from San Francisco to Washington, D.C.

The transfer came under sharp criticism last year by the House banking committee and its chairman, Rep. Henry Gonzalez, D-Texas, who said the two-year delay that resulted in the closure of Lincoln would cost taxpayers an additional $2 billion.

Keating maintained the San Francisco regulators, who recommended in 1986 that the thrift be seized, were so antagonistic toward Lincoln that he personally appealed to then-bank board chairman M. Danny Wall to transfer the exam.

"I was rankled and said, 'Hey, get us a fair forum,'" Keating said. "I was personally and directly and keenly aware that unless we got away from the 11th District (the San Francisco region of the bank board) . . . we could not possibly continue to operate."

Sporkin, a former Securities and Exchange Commission enforcement chief, said the bank board was "very generous" to Keating. "You're lucky I wasn't at the SEC when you made those requests," the judge told Keating.

"You would agree that's an unusual action taken by the board," Sporkin said.

Keating insisted the board's sole mission was to seize Lincoln.

"In my view, the new exam was ordered because the conclusions of the preliminary exam were not sufficient for them to take Lincoln, which is what they wanted to do," Keating said.

The developer, who appeared calm during an entire day's worth of testimony, said American Continental Corp., Lincoln's parent company, tried to comply with regulations but was ignored by all but a handful of regulators.

Also Friday, government attorneys claimed that American Continental chief financial officer Andrew Liggett was warned in 1986 by the company's outside accounting firm, Arthur Andersen & Co., that a tax-sharing agreement between Lincoln and American Continental might be improper.

The agreement is the centerpiece of the government's case, in which it claims Keating used the agreement to illegally siphon $94 million from the thrift. Keating on Friday denied that allegation, saying he believed the agreement was only a "housekeeping measure."

Public relations

DeConcini tells his S&L story in Surprise

By JENNIFER ARP
Daily News-Sun staff

SURPRISE — Arizona Sen. Dennis DeConcini's strategy to beat an ethics rap in the Keating affair was unveiled during an appearance Monday that resembled a closing argument in court.

In a 45-minute presentation at the Sun Ridge Recreation Center, the Tucson senator steadfastly denied he was unduly influenced by Phoenix businessman Charles Keating Jr.

"I resent the accusation that I

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Daily News-Sun photo by Mollie J. Hoppes

MAKING HIS CASE — Senator Dennis DeConcini defends his involvement in the Lincoln Savings and Loan controversy Monday at Sun Ridge in Surprise. A small crowd attended the noontime conference.

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Few attend DeConcini presentation

— From, A1

intervened because Keating gave me money," the senator said, referring to a meeting he and four other senators had with federal regulators auditing Keating-controlled Lincoln Savings & Loan Association.

The April 1987 meeting has brought ethics probes of the senators' actions. The meeting between regulators and legislators preceded the government seizure of Lincoln Savings and a federal fraud and racketeering lawsuit against Keating.

"I say that the regulators are pointing a finger at the political figures," DeConcini told about a dozen people on hand for the presentation, which included a historical look at the senator's association with Keating dating to 1981 and exhibits of letters, press statements and house banking committee testimony.

The presentation was one of many DeConcini has planned throughout Arizona this month to salvage what he considers an "impugned" reputation.

"In my opinion, in my value system, there's nothing more important than my reputation and my family," DeConcini said, explaining why he intends to spend thousands of dollars on an advertising campaign to convince the public his actions on behalf of Keating were neither illegal nor unethical.

"I stuck up for an Arizona constituent as I have done time and again. That's what I do as your senator," he said.

At the close of the presentation, several audience members sided with DeConcini and agreed with his contentions that federal regulators ultimately are to blame for Lincoln's collapse at a potential cost to taxpayers of $2 billion.

Earl Bowers of Glendale told DeConcini he is disturbed by statements that former chief thrift regulator Edwin Gray made to the news media regarding the Lincoln intervention.

"I'm confused as to what side of the mouth he's talking on," Bowers said of Gray.

DeConcini speculated a "besieged" Gray is looking for a scapegoat to justify his own failings.

"He (Gray) was the man in charge. He could have shut Lincoln down," the senator said.

Bowers, a veteran, also thanked DeConcini for his assistance in resolving a personal "feud" with the federal bureacracy in an insurance matter involving his wife.

DeConcini said during his 13 years in office he and his staff have come to the aid of 75,000 Arizonans like Bowers, the vast majority of whom were not contributors.

"I haven't won them all, but we've done it," he said.

Beth Stuart Neumann of Sun City, who described herself as a longtime DeConcini supporter, told the senator she hoped the Keating issue would [...]t di[...] courage him from seeking r[...] election in 1994. "We need y[...] in the Senate," she said.

DeConcini said he does n[...] yet know whether he will se[...] another term.

Addressing other matters [...] the forefront nationally, De[...]oncini said:

• The U.S. Navy is condu[...] ing routine exercises off t[...] north coast of South Americ[...] although on a "sustained" ba[...] in the event Colombia and oth[...] countries ravaged by illeg[...] drug trade will request logi[...] ical and intelligence gatheri[...] support in the drug wa[...]

"If they want ou[...]lp, [...] ought to be prepared to give to them," DeConcini said

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Cranston dogged by Lincoln

Senator defends self while traveling state

By Chris Knap
The Register

For Sen. Alan Cranston, Lincoln Savings & Loan is the problem that will not go away.

As he crisscrosses the state this month, seeking to re-establish his credentials as a leader on national issues, his involvement in the collapse of the Irvine-based thrift continues to bedevil him.

Monday, in Marin County, schoolchildren at Davidson Middle School asked him to explain. Later that day in a forum on women's issues at San Rafael City Hall, a man who would identify himself only as "not in politics" also demanded an explanation.

"I think that somewhere down the line, you're going to have to respond to the American public as to why you continued to stay involved with (Lincoln owner) Charles Keating," the man said.

Alan Cranston accepted nearly $1 million from Keating for his reelection campaign and other political causes. Eight times, he called or met with federal regulators to discuss Lincoln Savings & Loan.

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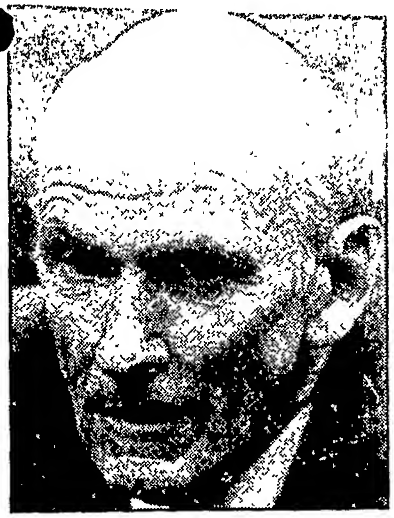

Sen. Alan Cranston
Coming to OC today

■ **PICTURE:** How the Cranston-Keating relationship unfolded/**4**

The bond holders and many long-time Cranston supporters are angry at the senior senator for his involvement in the case. Even those who believe he has done no wrong say his career has been badly damaged.

Now Cranston, 75, a champion of liberal causes through four US Senate terms, is having to answer the questions he had hoped would go away. He schedules community forums on toxic pollution, offshore oil drilling and abortion rights. But the reporters — and invariably, someone in the audience — wants to know about Lincoln.

Today, Cranston visits Orange County to discuss open space, the homeless and women's issues. One woman who has become an unofficial leader among those who lost money at Lincoln has promised to picket.

Earlier this week, in a Volkswagen van bobbing over Highway 101 between Sausalito and San Rafael, Cranston talked with a Register reporter.

Interventions by him and four other senators on behalf of Keating had no effect on the decisions of regulators, he said. He violated no ethical rules of conduct. In short, he may have made a political mistake, but he did nothing wrong.

"When I get the facts through the press to the public I think the people of California are very fair and

impropriety," he said.

That is a view that some Cranston supporters don't share.

"Alan's been terribly hurt by even appearing with the other senators," said former California Gov. Edmund G. "Pat" Brown Sr., a longtime Cranston ally.

"(Cranston should) weigh very carefully whether to run again," said Rep. Nancy Pelosi, D-San Francisco, a former director of Cranston's voter-registration drive.

Lu Haas, a long-time Cranston strategist who served as the senator's press secretary from 1969 to 1981, is convinced Cranston did no wrong. But he reports, sadly, "Some of his old friends are absolutely disturbed by this."

As a former political insider, Haas believes he sees the situation clearly.

"If there's a right or wrong in this situation, I think it's in the system. It's not in what Alan actually did. Money is corrupting the system, not in the sense of bribes, but that to become an elected official, you have to become part of the big money machine. That, per se, is a corruption."

Cranston has always courted wealthy donors — virtually every federal politician does.

Haas even chuckled at the practice, describing "a sort of Robin Hood effect" from Cranston taking huge sums from wealthy conserva-

advance liberal causes: abortion rights, nuclear disarmament, a ban on offshore oil drilling, dedications of huge sections of desert to the national park system.

But to liberals who prefer not to think about the role of money in the political system, the Lincoln case came as a shock.

"Voters avert their eyes from the blunt truth," Haas said. "Then they are disappointed when someone is exposed as having done this in the grand style."

Between 1985 and 1988, Cranston collected from Keating and his associates at least $35,000 in campaign contributions, $850,000 for his voter-registration efforts and $85,000 for the California Democratic party's statewide efforts.

"I don't think any politician can take $850,000 from a developer and then do favors for him and not expect eyebrows to be raised," Haas said. "It's an enormous amount of money."

And there are other, similar cases in Cranston's record, although not on such a scale.

Between 1986 and 1988, for instance, Cranston collected more than $50,000 from Drexel Burnham Lambert and its junk-bond chief, Michael Milken. Much of the money went into the voter projects, but Cranston collected $4,000 in honorariums in 1986 and 1987, according to public-disclosure forms.

In January, Cranston wrote the Securities and Exchange Commis-

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sion, asking the agency to drop its demand that Drexel move its junk-bond department from Beverly Hills to New York. After the lobbying by Cranston and other congressmen, the SEC did so.

The senator's Washington spokesman Murray Flander described the letter as "an effort to keep a local business here in California."

"Alan Cranston has finally been exposed for something he has been doing all along," Orange County Republican Party Chairman Thomas Fuentes said. "For years he has maintained a liaison with special interests on particular issues whereas overall his votes have been anti-business and pro-liberal."

Cranston does not deny that he solicited money from people with different political agendas.

"I live in a state where it costs more to run than anywhere else in the country," he said. "In the last race I had I set a record for what a Democratic candidate has raised, over $13 million, and I still got outspent by my opponent (Ed Zschau), who raised $15 million plus.

"It's a very unpleasant situation, and it leads to suggestions of impropriety, even if there are no improprieties committed. I worked to change this system long before this incident arose."

Cranston calls intervention with federal officials "constitutent services," and says he has helped thousands of people — contributors and non-contributors — in similar ways.

"I help anybody that seems to have a legitimate problem with the government," he said.

Cranston said Lincoln had more than 700 employees and 140,000 depositors.

"You can't ignore it when somebody with that big an operation says he's got an unfair problem," he said. "If I took the position that because somebody has contributed to me I can't lift a finger for them, even if they seem to have or may have a just case, I would not be a very worthy senator. Out of political cowardice, I would avoid taking a look at the (complaints) of a constituent that seemed to have some difficulties — I'm not going to ever take that wimpishlike position."

But Sherry Bebitch Jeffe, senior political scientest at Claremont Graduate School's Center for Politics and Policy, said Cranston's actions cannot be excused as part of the system.

"It has always been the case that some constituents, mostly large contributors, are more equal than others. But ... what Cranston did for Keating is not the same as helping an old lady cut through red tape," Jeffe said.

Shirley Lampel, of Tustin, a widow who is losing her sight to diabetes, agreed.

Lampel, 58, took $30,000 from her husband's life insurance settlement out of a savings account and purchased junk bonds at Lincoln, chiefly for the monthly income they promised. She thought it was guaranteed.

"I trusted the FSLIC (federal deposit insurance sticker) on the door of Lincoln Savings," Lampel said. "I was cheated. This Keating took my $30,000 and he was off. But Charles Keating could have never done what he did without Cranston and the help of the four other senators.

"They opened the hen-house door to this fox."

As Cranston has traveled the state this month, he repeatedly has said he will run for re-election in 1992.

"I believe that the people who have been with me will be with me when the election comes. And it's a long way off, fortunately." he said.

Lampel is doing everything she can to ensure that does not happen.

"I have been Paul Revere-ing this story. Whoever I can tell, I do. As long as I have someone who will drive me, I will be there with my picket sign wherever Alan Cranston appears.

"He can run for president or for dogcatcher — but he'll never be elected."